Report and Consolidated Financial Statements

First World Hybrid Real Estate Plc

For the year ended 31 August 2023

Fund Information

Directors
Craig Ewin
David Elliott
Elizabeth Greenhalgh
Mark Grace
Philip Scales
Russell Collister
Duggan Matthews (appointed 1 March 2023)

Registered Office
55 Athol Street
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IM1 1LA

Manager, Property Manager, Registrar and Registered Agent
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Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 August 2023.

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 wholly owns the following subsidiaries (collectively, the "Group"), all incorporated in the Isle of Man:

Name	Company description	Immediate parent	Date of incorporation
FWRE Holdings Limited	Holding company	First World Hybrid Real Estate Plc	26 September 2013
FWRE Limited	Property investment company	FWRE Holdings Limited	22 August 2013
FWRE Holdings Two Limited	Holding company	First World Hybrid Real Estate Plc	24 August 2021
FWRE Two Limited	Property investment company	FWRE Holdings Two Limited	24 August 2021

On 30 November 2022, the Group completed the acquisition of a retail park property known as North Durham Retail Park. The agreed purchase price is £9,900,000 plus £682,000 of acquisition costs (note 9).

On 1 March 2023, FIM Capital Limited ("FIM") replaced Sequel Property Investments (Propriety) Limited ("Sequel") as the Group's Property Manager (note 16 and 20).

On 1 March 2023, Duggan Matthews was appointed as a Director of the Fund. Duggan is a Director and Chief Investment Officer of Marriott Asset Management (Pty) Ltd and is Chair of its Investment Committee (note 20).

To reflect the above changes and several consequential and minor updates, the Offering Document was updated on 1 March 2023.

On 8 March 2023, the Group completed the sale of the Prima House, Leeds property which was tenanted by Iron Mountain. The property was purchased for £7,505,000 and sold for £8,000,000. The property was partly funded by debt of £3,752,000, which was repaid upon the sale.

On 27 March 2023 the HSBC UK Bank Plc loan facilities were extended by one year to 11 February 2026 and on 11 July 2023 the Barclays Bank Plc loan facilities were extended by one year to 22 October 2025 (note 13).

Results

The consolidated results of the Group for the year ended 31 August 2023 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.

Details 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 (note 7):

Date paid	£000	Pence per share
24 October 2022	647	1.30
23 January 2023	649	1.30
24 April 2023	662	1.30
24 July 2023	663	1.30

Directors

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

Craig Ewin
David Elliott
Elizabeth Greenhalgh
Mark Grace
Philip Scales
Russell Collister
Duggan Matthews (Appointed 1 March 2023)

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 events after 31 August 2023, see note 24 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 11 December 2023 and signed on its behalf by:

P P Scales	**R J Collister**
Director	**Director**

Executive summary – a difficult year for UK property and the Fund

- **Investment returns** – based on the last published prices, the Fund produced a negative Total Return of 9.2% for the financial year ended 31 August 2023 (2022: 9.1% positive return), comprising a 3.8% income return and 13.0% price depreciation. The income return has fallen but is in line with expectations including, specifically, the impact of higher interest rates. The negative capital return is primarily due to lower REIT pricing and lower direct property portfolio valuations, partly offset by a positive fair value adjustment of the interest rate swap.
- **Investment flows** – net outflows during the year were £2.1m, comprising new subscriptions of £15.1m and redemptions of £17.2m. (2022: £32.6m net inflows, comprising new subscriptions of £40.3m and redemptions of £7.7m).
- **Fund pricing Net Asset Value (NAV)** - the NAV of the Fund at 31 August 2023 was £162m, down on prior year £186m (due to both new outflows and price depreciation) (note 8).
- **Property acquisitions and disposals** - the acquisition of Durham Retail Park (£9.9m + acquisition costs) was completed on 29 November 2022 while the Iron Mountain property was realised on 7 March 2023 for £8.0m (original purchase price £7.5m) (note 9).
- **Property valuations** – the valuation policy is for each property to be valued twice per annum on a rolling basis, on the anniversary of its acquisition date and every six months thereafter. However, with increasing evidence of lower property pricing, towards the end of 2022 valuations of several of the larger properties were updated to ensure that the Fund was materially fairly priced. At the financial year end, all properties were reviewed by the independent valuers and adjustments were made where deemed necessary to satisfy IFRS requirements. Overall, the portfolio decreased in value by a net £17.2m[1], this represented an 8.1% depreciation on the opening portfolio value (2022: up by £8.0m, 4.9%).
- **Debt arrangements** – the property portfolio Loan to Value (LTV) at financial year end 2023 was 41%, which is within the 35% to 45% target range set by the Board. The Fund LTV, based on total assets, is circa 35%. Some 52% of debt is hedged for a weighted average remaining term of 5.7 years at very favourable rates. The Interest Cover (IC) ratio is circa 3.2 times. The swaps are well in the money with a fair value of £7.4m (31 August 2022: £5.5m) (note 13).
- **REITs** - the prices of the REITs held by the Fund have fallen sharply during the financial year, in line with the REIT market generally, resulting in a £8.8m write-down for the year, 28% on the opening REIT portfolio value, (2022: £5.8m write-down). It is significant that these REITs are now trading at what appear to be VERY attractive yields and meaningful discounts to their underlying NAVs (note 4 and 5).
- **Liquidity** - liquidity on 31 August 2023, including the available Revolving Credit Facility (RCF), stood at 20%[2] (2022: 26%), in line with the targeted 20% minimum liquidity level set by the Board.

Markets and business environment

A brief update on market conditions is set out below.

The economic backdrop

The past year has proven to be difficult in many respects with the economic environment being influenced by extraordinarily high inflation and with the Bank of England increasing interest rates aggressively to reel in these inflationary pressures, as have central banks around the world. While inflation has fallen from the double-digit highs, it has remained stubbornly above the Bank of England's 2% target level. Strong evidence that inflation is under control will in time lead to lower interest rates and while short term rates are important, property is arguably a long-term investment and will take its lead from longer-term interest rates and falling bond yields.

[1] Net loss on investment properties per the financial statements of £18,383,000 (2022: £5,028,000 gain) comprises of £17,214,000 fair value loss on investment properties (2022: £7,995,000 gain), £123,000 realised loss on investment properties (2022: nil), IFRS adjustments of £351,000 write off of rent free debtors (2022: £157,000) and £694,000 write off of acquisition costs (2022: £2,810,000).

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

Against this backdrop, the commercial property market has seen investment values come under stress. Fortunately, apart from the office sector, the occupational market has weathered these tough times relatively well.

Post the Fund's financial year end geopolitical uncertainty escalated due to the Middle East conflict. However, in recent weeks there have been positive signs of a more favourable inflation outlook, bond yields have fallen, and REIT prices have risen, sharply, in response. Further evidence of this trend will be key in the outlook for property valuations.

Investment capital and debt markets

UK 10-year bond yields, which offer no income growth, increased from yields of around 2.8% at the beginning of the financial year to around 4.5% at year end (currently around 4.25%). Cash deposits for the first time in a decade offer an income return.

It is worth noting that international investors are significant investors in UK commercial property, consistently making up more than half of transactional activity and accordingly the perceived relative strength, or otherwise, of Sterling is likely to bear influence in their decision making. The GBP/USD exchange rate has firmed from 1.15 at the beginning of the financial year to 1.26 currently.

Investors in the Fund are mainly South African and accordingly, 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 one which is likely to continue. However, whereas the Pound to Rand exchange rate was circa R20 twelve months ago, it is now around R24, and considered to be an expensive exit point by many South Africans wishing to externalise funds.

On the debt front, short term interest rates have remarkably increased from 1.75% to 5.25% over the year, such has been the Bank of England's desire to curb inflation. While often mitigated by hedging strategies, these higher rates have had an adverse impact on funding costs, and the viability of market transactional activity and pricing for buyers. It is encouraging that the consensus is that the top of the interest rate cycle has been reached and that the next adjustment will be downwards.

Direct property market

The UK direct property market has come under pressure, yields have drifted outwards and transactional prices and valuations have fallen. All property types have been impacted by this weaker pricing and investment demand. Added to this, transactional activity has reduced considerably meaning that market evidence is limited, with a stand-off between opportunistic buyers and reluctant sellers.

On the positive side, the distribution warehousing and logistics market has continued to benefit from robust occupational demand and, with curtailed supply due to higher construction costs and the increased cost of development financing, together with vacancies levels being at or below long-term averages, there has been meaningful market rental growth. The outlook for rental growth in this sector remains favourable.

Traditional retail property, namely shopping centres and high street retail, has continued to struggle and despite high yields, remain unattractive investment propositions due to the downward pressure on rentals. However, retail warehouses, let to strong value and DIY tenants on long leases, seem to offer good yields and are being touted as offering the best property returns over 3-to-5-year investment horizons.

Food stores have also come under outward yield pressure but at current pricing arguably offer good long-term income from strong 'recession proof' tenants on long term leases.

As regards offices, their role in a post COVID era remains uncertain with good examples of occupier consolidation being seen from major tenants. The general investment demand for this property type is also being impacted by the capex required to address EPC ratings. That said it is hard not to see a role for physical offices once these influences settle down and single tenanted, low-rise offices, in suburban decentralised office parks, let to strong tenants on long leases seem the most desirable investments in this sector.

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 food, value and DIY retailers) has been well placed and seems to remain so looking forward.

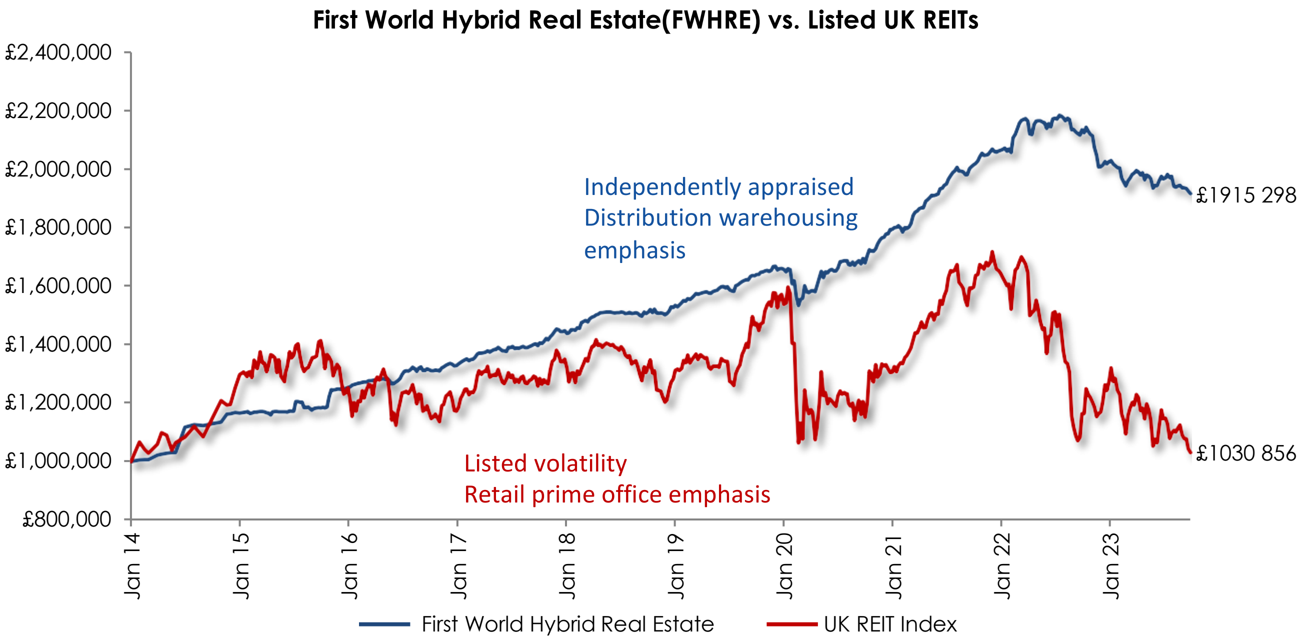
<u>Quoted Property market (REITs)</u>

As expected of publicly quoted and traded investments, REIT prices tend to be more volatile than directly appraised property. Having rebounded strongly post COVID, especially distribution and logistics focussed REITs, all REITs have come under considerable pricing pressure due to rising inflation and interest rates and have again fallen sharply. It is worth noting that having traded at premiums to their underlying net asset values they are now trading at meaningful discounts and at yields well above historic averages. REITs look to present good investment value and post year end there have been signs of price firming.

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. While the past year has been difficult and not surprising given the economic, fiscal, and general operating environment, over longer-term horizons and measured from inception the Fund has produced solid returns with low volatility, whereas the volatility and weaker return of the NAREIT index is clear, as seen in the graph below.

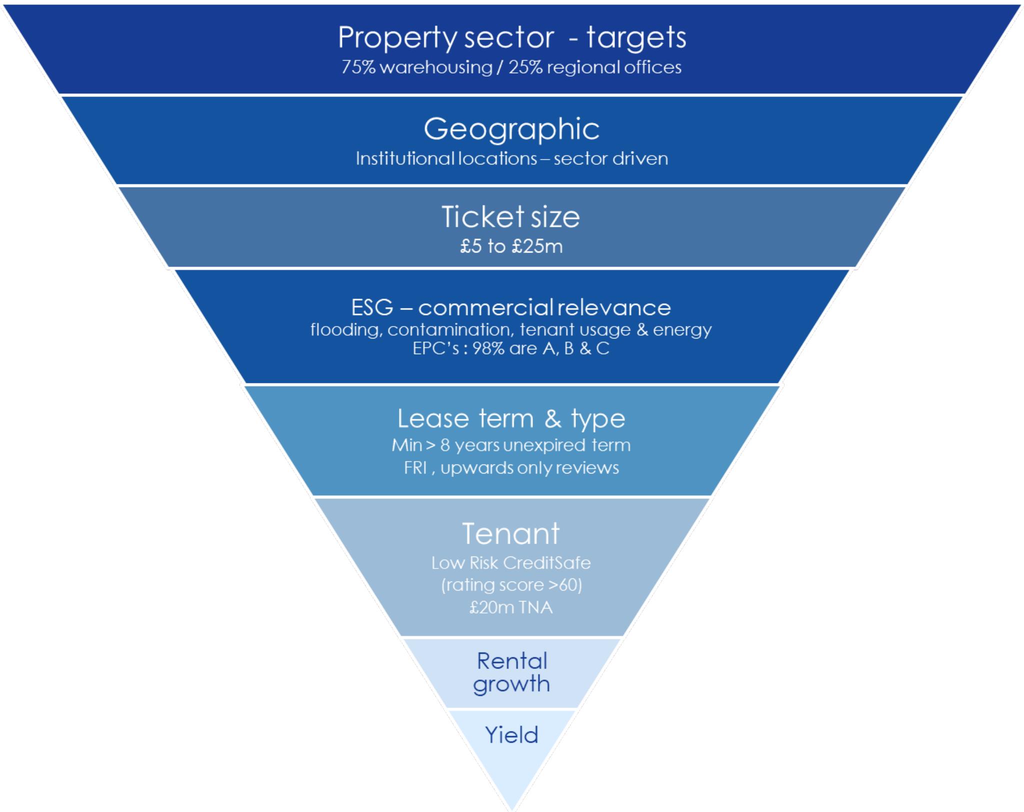


Source: FIM Capital Limited. Based on last traded price prior to year end and before Investment Management fees.

This volatility in REITs is not unexpected, given the liquidity of publicly quoted and traded counters, and is especially evidenced at trigger events such as the Brexit Referendum in 2016, the start of the pandemic in 2020 and, more recently, significant inflationary pressures and increases in interest rates. It is fair to say that the pendulum often swings further, both ways, and this is pertinent right now.

Management Report (continued)

The Fund's investment strategy is reflected in the acquisition filter below and which has informed decision-making in the composition of the property portfolio.



No major changes are recommended to the positioning of the direct property portfolio although it should be noted that the weighting to offices is currently 13% of the portfolio value and there is no intention to increase this to the longer-term weighting of 25% in the short term. A dominance to distribution warehousing is to be maintained, with a meaningful weighting to retail warehousing (DIY, value and food retailers). A weighting to Scottish property of between 10% and 20% is considered appropriate. Careful consideration has been given to the location and age of the properties and the extent to which improvements are generic in nature.

Special attention is also given to the nature of the business operations of tenants, their financial strength and resilience. Accordingly, when acquisitions are considered, tenants are to have a minimum CreditSafe rating of 60 and tangible net assets of not less than £20m. Leases are to be Fully Repairing and Insuring (FRI) and with rental reviews midterm in leases to be upwards only. A portfolio WAULT (weighted average unexpired lease term) of 10 years is targeted, with a maximum exposure to any single tenant set at 15% of rental income.

ESG considerations are integral to not only the investment decisions made by the Fund but its ongoing operations. With respect to Environmental issues, careful consideration is given to flood risk, ground gas or contamination, energy ratings, and material use. With specific reference to EPC ratings (Energy Performance), a program is in place to address and improve the ratings of specific properties and the overall rating of the portfolio. It is accepted that Environmental issues are not only increasingly relevant in the ESG agenda, but fundamentally important in making good, long term, property investment decisions. Governance related issues are also not only front of mind to ensure the interests of investors and other stakeholders are well served but are a fundamental cornerstone of the Fund given its regulated and listed nature.

The construct of the Fund, while primarily a direct property portfolio, envisages the ability to hold REITs (the Hybrid in its name) and to vary the weighting between direct property and listed depending on their relative investment merits. Currently REITs seem to offer relatively good value and an increase in the current weighting is being targeted. This is not being driven by liquidity requirements, which are in line with the 20% Minimum Liquidity Level (measured as % of Fund NAV) set by the Board, but by the relative investment merits.

The Fund has in the past utilised debt to partly finance acquisitions and the Board has adopted various loan and hedging targets. The LTV range is 35% to 45% of property portfolio value, with between 50% and 75% of the debt to be hedged through a spread of fixed terms (with a minimum weighted average term of 5 years) to mitigate interest rate increases. All targets are currently met (see below for further detail on debt funding arrangements).

Investor profile, inflows and redemptions, and liquidity

The Fund offers both distributing and accumulating classes. At 31 August 2023, Class A (distributing) shareholders, the only share class at listing, represented 36% of the share capital by value (2022: 36%). Class C (accumulating non-retail) now make up 20% (2022: 19%) with Class B (accumulating retail) being the largest category at 44% (2022: 45%).

The biggest shareholder category remains Advisor linked investors. The largest influence under a single IFA is around 12% of the Fund equity. The largest direct investor has circa 2% of the Fund. There are several investors in the direct client category with holdings between 1% and 2% of the Fund. There are circa 1,700 investors in the Fund. Accordingly, there is good diversification and spread amongst the investor base.

Inflows for the year were £15.1m (2022: £40.4m). Redemptions were £17.2m (2022: £7.7m), circa 10% of average shareholder funds (2022: 5%). A redemption ratio of 5% to 10% of shareholder funds would be a reasonable expectation in the normal course given that the Fund has been in existence for 10 years and investors personal circumstances would naturally influence redemption requirements over time.

A key feature and offering of the Fund is its liquidity, to meet reasonable levels of redemptions, and hence the REIT holdings in the Fund. The current targeted Minimum Liquidity Level (MLL) approved by the Board is 20%. This liquidity is held in the REITs, cash and any unutilised amounts on the RCF, all being liquid assets. The current liquidity level at the financial year end was 20%. As mentioned earlier, consideration is being given to upweighting the REITs in the Fund which will, by implication, see liquidity levels increase.

Investments: Transactional activity, Property portfolio and REITs

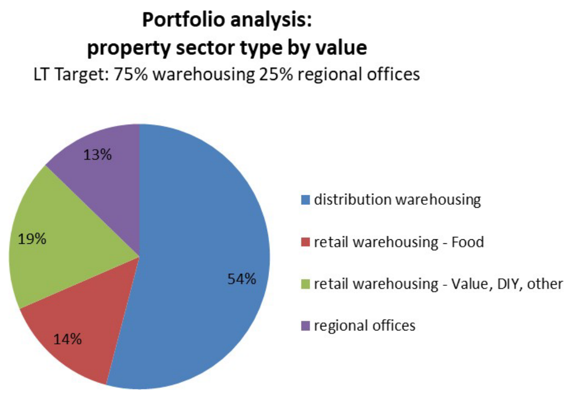
As already mentioned, there was one property acquisition during the year and one disposal.

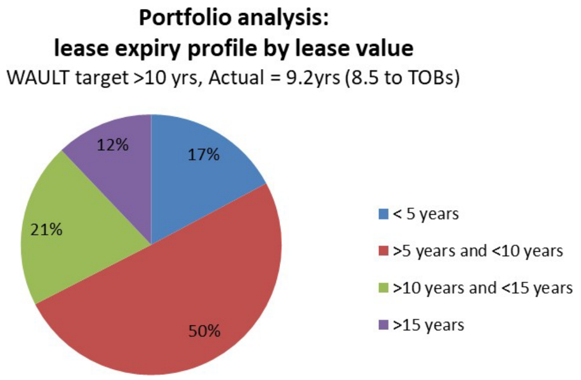
North Durham Retail Park – the acquisition of North Durham Retail Park was completed on 29 November 2022 at the agreed purchase price of £9.9m + acquisition costs (NIY 5.25%). The property comprises retail units and a drive thru on a 5.26-acre plot. The purchase encompasses three income producing units. A 12,000 sqft unit leased to Iceland Foods Limited t/a Food Warehouse, a 22,000 sqft unit leased to TJ Morris. t/a Home Bargains and a standalone drive thru unit extending to 1,830 sqft and leased to 23.5 Degrees Ltd t/a Starbucks. The lease terms are ten, fifteen and twenty years respectively with the Starbucks lease being subject to a tenant only break after 15 years (15 years certain term). The development also houses a standalone Aldi store of 19,000 sqft, but this is subject to long term leasehold and is not income producing for the Fund. The combined rental is £554 250 per annum, which equates to £15.47 psft.

Iron Mountain disposal – this disposal was completed on 7 March 2023 at a price of £8.0m, slightly ahead of valuation guidance provided by Colliers in November 2022 of £7.7m.

With the decision to direct surplus funds into REIT investments, no property investment opportunities are currently being considered.

The sector weighting of the property portfolio as of 31 August is set out overleaf. The portfolio remains dominant in distribution warehouse property (54%). There is a total 33% weighting to retail warehousing, with 'recession proof' value food retailers, such as Aldi and Tesco, having a 14% weighting. This food property type offers good portfolio diversification, from strong tenants on long lease terms. The offices now comprise only 13% of the entire property portfolio, well below the long term 'target' of 25%, and with no intention to increase this in the short term given the general uncertainty around offices, both from occupancy and EPC capex cost perspectives. The Fund has no investment in high street retail or traditional shopping centres, leisure or student accommodation and, again, there is currently no intention in adding these property types.





The pie chart above reflects the lease expiry profile. It is well spread with a good long-dated tail. It is also significant that despite the lapsing of time, and due to various regears and WAULT enhancing acquisitions, the WAULT has been maintained at 9.2 years, the same as it was at the beginning of the year and up on the 8.8 years a further year back.

There are 6 leases which make up the 17% expiries in the next 5 years, the largest by far (9%) being the Crown Leicester property which has just over 4 years remaining. Discussions around a regear of this lease have commenced. Barratt Gateshead and SIG Cardiff (both circa 2% weightings) are just under 4 and 5 years to expiry. Again, early regear discussions have commenced. The very small unit occupied by Greggs at Marina Quay is also up in just under 5 years. Also, at Marina Quay, one of the remaining small units was let during the year and Heads of Terms have been agreed on the other remaining vacant unit.

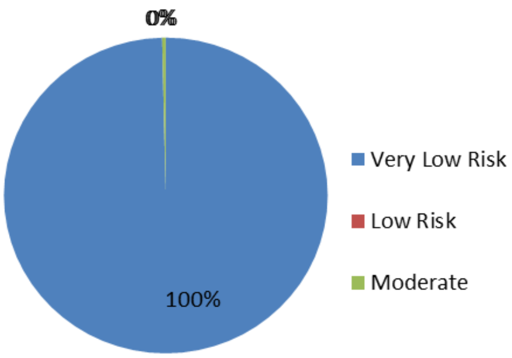
The closest lease expiry is Great Bear Deeside (3%), being May 2024. The tenant has now advised that they will not be extending their lease, and the space is now being actively marketed. On the positive side, a very meaningful upliftment in the current passing rent of £4.50 psft can be expected, with the appointed leasing agents of the view that an ERV of £6.50 is achievable.

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.

The table below shows the top 10 tenants at 31 August 2023, many of which are well known and substantial businesses. It is also worth noting that in the case of 5 of the top 10 tenants, their occupancy is spread over more than a single property, further mitigating risk.

Top 10 tenants	lease value	business
Crown (2 properties)	12%	UK's leading manufacturer of cans
DHL	10%	Global leading parcel delivery
B&M (4 properties)	9%	UK's leading variety goods value retailer
Marsh	7%	Large general insurer
Spectrum Brands	6%	Distributor of household brands
SIG (2 properties)	5%	Leading supplier of specialist building products
Aldi (2 properties)	5%	Leading discount food retailer
Vanquis Bank	4%	Credit card services, part of Provident Group
Tesco	4%	UK's largest food retailer
Home Bargains (2 props)	4%	Value retailer
	67%	

The pie chart overleaf shows the portfolio rating of the tenants (based on annual lease value), using CreditSafe ratings as at 31 August 2023. More than 99.5% of tenants, by rental income, are rated Very Low Risk, with only two very small tenants in Marina Quays falling below this top rating. This reflects a meaningful improvement on the previous year where the Very Low Risk stood at 93%.



The acquisition filter requirement around tenant's financial strength and standing has undoubtedly stood the Fund in good stead. As already mentioned, the rent collections from the portfolio have been excellent with no write-offs being necessary since inception of the Fund.

There has been ongoing, proactive engagement with tenants generally and specifically regarding lease regear opportunities of which there have been a several concluded during the financial year, including Booker, two B&Ms and more recently Matthew Clark which included some capex work to accommodate their needs and on which additional rental is being received. In each case the remaining lease term has been pushed out to a minimum of 10 years, entrenching occupancy and rental income and underpinning property values.

Furthermore, where there have been rental review negotiations the distribution warehousing properties have landed well with good upliftment in net effective rentals (ie DPD up 27%, Crown Leicester up 23%) in line with market growth and closed out without incurring external agent fees. There are several rent reviews currently in play.

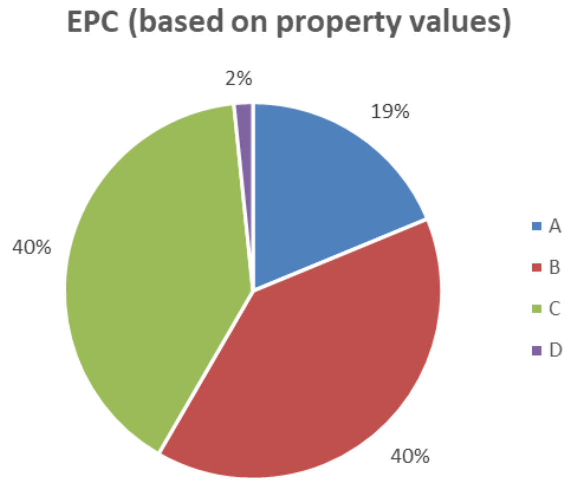
It is also significant that 39% (2022: 43%) of the portfolio by lease value, including all office leases except for Marsh Norwich, have RPI (18%) or fixed (21%) rental increases upon review. While this may cap the upside of rental growth midterm in these leases during periods of strong market rental growth or high inflation, it also underpins the certainty of rental upside. It is conservatively estimated that there is currently at least 5% inherent rent upside at the next rent resets (review or expiry), after providing for tenant incentives, across the portfolio.

During the financial year, the valuation policy of having each property routinely valued independently, every 6 months following its acquisition date, was interrupted by an early assessment of the larger properties in the portfolio at the end of Nov / early Dec 2022. This was to reflect softer valuations that were becoming evident in Q4 2022 and to ensure that the price of the Fund was materially fairly stated and that investors were in turn being treated fairly. Furthermore, all valuations were reviewed by the independent valuers at financial year end and adjustments were made where necessary to ensure that the Fund's property portfolio valued was fairly stated for IFRS purposes at 31 August 2023.

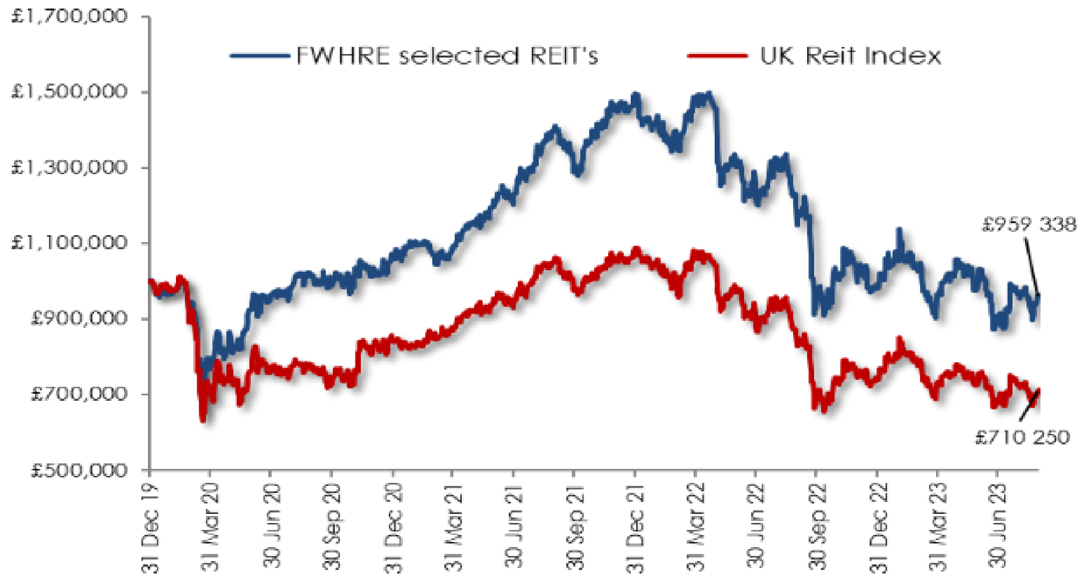
Property valuation yields have drifted out over the year across all property types, meaningfully, influenced by higher interest rates and bond yields, although good distribution warehousing rental growth has partially mitigated the full impact of this outward yield drift (decompression) in that property type. Furthermore, lease regears and extensions have underpinned valuations in some cases.

Overall, the portfolio decreased in value by a net £17.2m over the year, 8.1% depreciation on the opening portfolio value (2022: up by £8.0m, 4.9%). Further analysis of this shows that £12.3m occurred in 1st half of the financial year with £9.7m being brought to book in the Nov / Dec 2022 adjustments. By deduction, the write-down was £4.9m in the 2nd half of the financial year, of which £3.3m is attributable to downward adjustments for two offices made at year end. Apart from these two office properties, there has been good evidence of yields (and valuations) stabilising in recent months. The property portfolio value at 31 August 2023 is £197.3m (2022: £212.1m).

One of the issues which is becoming increasingly relevant is the whole question of EPC ratings, with regulatory authorities seeking to set more onerous targets both in terms of levels and timing. This flows through to the letting of properties but also the costs of capex to attain these targeted levels, with the latter generally impacting on valuations of office properties. Electrical heating is now also favoured to gas heating, with gas installations in warehousing impacting negatively on EPCs scores. The pie chart below reflects the portfolio's position at 31 August 2023 which is favourable and meets future targeted levels. Positively, post year end, the D score has improved to a B following internal works carried out by Keepmoat, at their cost.



The REITs held by the Fund have returned a negative total return (capital and income) of circa 20% over the financial year, in line with the UK REIT index of negative 17.4%. REITs are volatile and interest rate sensitive and the sharp increase in interest rates over the past two years has given rise to weaker prices across the sector. However, over 5-year investment horizon, the REITs held by the Fund have performed very much better, with a total positive return of 20.5% versus a negative 17.8% for the sector, justifying their specific selection. The current pricing of REITs, and the significant discounts to underlying asset value that they are currently trading at, suggests that they offer excellent value. The trigger to this being unlocked is likely to be when there is good evidence that inflation is well under control which in turn will lead to lower bond yields and longer-term interest rates. Indeed, at the time of writing this report there are good signals with REIT prices having firmed. In the interim, we can take comfort that the management teams continue to report sound operating fundamentals in the way of occupancy levels, rental growth and collections, all underpinning robust income, and dividends. The graph below shows the relative performance of the Funds REITs compared to the UK REIT sector since Jan 2020, just prior to the pandemic.



Source: Bloomberg and Marriott.

Debt funding arrangements

The Fund has two debt funders in place, Barclays and HSBC, and during the year 1-year extensions were added to both debt arrangements, at the same margins and at acceptable market-related fees. There has been no breach of the bank IC or LTV covenants.

The property portfolio LTV is currently 41% (circa 35% of total assets) and within target range set by the Board of 35% to 45%. Approximately 52% of the debt is hedged through a spread of 3 interest rate swaps with a weighted average term of 5.7 years remaining. Again, within Board approved targets. These swaps are very much in the money, with a fair value of circa £7.4m (31 August 2022: £5.5m). The £5m RCF is currently unutilised and fully available if required.

Governance and risk

During the year the Risk Audit and Compliance Committee (RACC) and Investment Committee (Investcom) met routinely in terms of their mandates and there have been several further ad hoc Investcom meetings. The risks which the Fund faces are reviewed and discussed at the quarterly Investcoms and considered by the RACC before being approved by the Board. Several changes have been made during the year to reflect the tougher market conditions.

Fund investment performance and guidance

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

Annualised returns – period ending 31 Aug 2023	1 Year	3 Years	5 Years
Total Return	-9.2%	5.4%	5.5%
Capital growth	-13.0%	0.9%	0.9%
Income	3.8%	4.5%	4.6%

Source: FIM Capital Limited. Based on last traded price and before Investment Management fees.

The 3.8% income return (2022: 4.4%) arises from 4 quarterly dividends of 1.30p, totalling 5.20p, (2022: 5.40p), distributed and paid during the financial year. This 5.20p is 3.7% down on the prior year (2022: 2.9% up),

The long lease profile of the direct property portfolio together with the FRI nature of the leases and the strength of tenant base have all contributed to the robustness of the net rental streams and the income return. The Fund has also benefitted from good income from its REITs by way of dividend distributions received.

While the Fund's properties continue to perform as expected, with good rental growth being evidenced in the distribution warehousing properties owned by the Fund, the sharp increase in interest rates has given rise to higher interest costs on the unhedged portfolio debt and exerted downward pressure on earnings.

The A class share price as at 31 August 2023 (last price calculated as at 25 Aug) was £1.1603, 13.0% down (2022: 4.7% up) on the £1.3339 price twelve months ago. This is due to both a depreciation in the valuation of the direct property portfolio (down 8.1% on an ungeared basis) as well as the mark to market write down in the REITs held by the Fund (down circa 28% over the year), partially offset by a mark to market gain in the fair value of the interest rate swaps.

The comparative performance of the Fund is further demonstrated in the table below. UK REITs (UK REIT index) weakened further over the 12 months ended 31 August 2023 due to increasing interest rates and adverse market sentiment. By comparison, the Fund has held up relatively well given the properties selected, the warehousing emphasis and the strength of the leases.

Annualised returns – period ending 31 Aug 2023	1 Year	3 Years	5 Years
FWHRE	-9.2%	5.4%	5.5%
UK REIT Index	-17.4	-3.4%	-3.8%
UK Equity Index	0.9%	4.2%	0.5%

Source Bloomberg and Marriott. Based on last traded price and before Investment Management fees.

As regards the outlook going forward, it is expected that robust income will continue to be received from both the Fund's REITs and property portfolio and a dividend yield of circa 4.0% off year end pricing seems reasonable. At stable yields, underlying rental growth should give rise to some valuation upliftment and hence the long-term guidance of 4% to 6.5% total return is again a reasonable assumption.

Further, while REITs remain volatile, they are attractively priced and there are encouraging signs of price firming on good news. We have previously made the case that when there is a strong conviction, and evidence, that inflation will fall towards the 2% target levels, then bond and longer-term interest rates will react positively. We are confident that this will lead to a strong correction in the REITs held by the Fund, and we believe that firming REIT prices will be a lead indicator for direct property valuations. Transactional activity over the last year has been limited, and well below long-term averages. However, the consensus is that there is considerable investment capital waiting to be invested in property when there are clear signals that a value floor has been reached. With increasing evidence of valuation yields having stabilised and bond yields moving down in recent weeks, this could be the trigger for these purchasers to become acquisitive. This will be supportive and positive for property valuations.

Statement of Directors' Responsibilities in respect of the Directors' Report and the consolidated 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 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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

11 December 2023

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 2023, the consolidated statements of comprehensive income, 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 2023 and of the Group's loss 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 the FRC Ethical Standard 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 2022):

	The risk	Our response
Valuation of investment property £197,315,000;(2022 £212,099,000) 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*** The Group's investment property portfolio consists of UK commercial properties, with a combined fair value of £197,315,000, comprising 83% of total assets. The fair value of investment properties at 31 August 2023 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 2023.	**Our procedures included:** **Control design -** Documenting and assessing the design and implementation of the investment property valuation processes and controls; **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; **Comparing valuations** - Agreeing the value of all properties held at 31 August 2023 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 2023;

	The risk	Our response
	The valuation of the Group's investment property portfolio is a 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. 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** 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. We also compare key inputs used in the valuations, such as rental rates, to those being obtained by the Group under the relevant lease agreements. **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 risk-based selection of properties; and **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 £2,300,000, determined with reference to a benchmark of group total assets of £237,405,000, of which it represents approximately 0.97% (2022: 0.96%).

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 consolidated financial statements as a whole. Performance materiality for the Group was set at 75% (2022: 75%) of materiality for theconsolidated financial statements as a whole, which equates to £1,720,000. 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 £115,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.

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

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 theconsolidated 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 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.

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:

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

- 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.

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.

We have nothing to report on other matters on which we are required to report by exception

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

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

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

11 December 2023

Consolidated Statement of Comprehensive Income for the year ended 31 August 2023

	Note	2023 £000	2022 £000
Revenue			
Rental income	9	12,517	11,327
Other income	10	5	48
Net fair value (loss)/gain on investment properties	9	(18,383)	5,028
Net (loss)/gain on financial assets at fair value through profit or loss	5	(6,894)	186
Dividend income		1,756	1,191
		(10,999)	17,780
Expenses			
Finance expense	13	(3,628)	(2,468)
Property expenses	16, 20	(1,238)	(1,287)
Management expenses	20	(792)	(767)
Custodian fees	22	(190)	(182)
Other expenses	17	(253)	(258)
		(6,101)	(4,962)
(Loss)/profit before tax		**(17,100)**	**12,818**
Taxation	18	(1,791)	(1,746)
(Loss)/profit for the year		**(18,891)**	**11,072**
Total comprehensive (loss)/income for the year		**(18,891)**	**11,072**

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 2023

	Note	2023 £000	2022 £000
Assets			
Non-current assets			
Investment property	9	197,315	212,099
Financial assets at fair value through profit or loss - swap	5	7,398	5,527
		204,713	217,626
Current assets			
Financial assets at fair value through profit or loss – equities	5	30,934	42,064
Trade and other receivables	11	809	615
Cash and cash equivalents	15	139	4,164
Interest receivable	13	195	31
Tax asset	18	615	-
		32,692	46,874
Total assets		**237,405**	**264,500**
Liabilities			
Non-current liabilities			
Borrowings	13	80,204	83,956
		80,204	83,956
Current liabilities			
Trade and other payables	14	719	728
Interest payable	13	618	317
Deferred income	9	1,221	1,005
Current tax liability	18	-	257
		2,558	2,245
Total liabilities		**82,762**	**86,201**
Net assets		**154,643**	**178,237**
Equity			
Participating Share capital	6	1,251	1,267
Share premium	6	144,171	146,237
Retained earnings		9,221	30,733
Total equity		**154,643**	**178,237**
NAV per Share £	8	**1.23**	**£1.41**

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 11 December 2023 and signed on its behalf by:

P P Scales
Director

R J Collister
Director

Consolidated Statement of Changes in Equity as at 31 August 2023

	Participating Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 September 2021	**1,044**	**113,827**	**22,227**	**137,098**
Profit for the year	-	-	11,072	11,072
Total comprehensive profit for the year	-	-	11,072	11,072
Transactions with Shareholders				
Distributions to Shareholders	-	-	(2,566)	(2,566)
Participating Share issuances	277	40,080	-	40,357
Participating Share redemptions	(54)	(7,670)	-	(7,724)
Total transactions with Shareholders	**223**	**32,410**	**(2,566)**	**30,067**
Balance at 31 August 2022	**1,267**	**146,237**	**30,733**	**178,237**
Balance at 1 September 2022	**1,267**	**146,237**	**30,733**	**178,237**
Loss for the year	-	-	(18,891)	(18,891)
Total comprehensive loss for the year	-	-	(18,891)	(18,891)
Transactions with Shareholders				
Distributions to Shareholders	-	-	(2,621)	(2,621)
Participating Share issuances	111	15,019	-	15,130
Participating Share redemptions	(127)	(17,085)	-	(17,212)
Total transactions with Shareholders	**(16)**	**(2,066)**	**(2,621)**	**(4,703)**
Balance at 31 August 2023	**1,251**	**144,171**	**9,221**	**154,643**

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 2023

	Note	2023 £000	2022 £000
Cash flows from operating activities			
(Loss)/profit before tax		(17,100)	12,818
Adjustments to reconcile profit before tax to net cash flows			
Interest expense	13	3,435	2,084
Amortisation of borrowing arrangement fees	13	193	384
Net fair value loss/(gain) on investment properties	9	18,259	(5,028)
Realised loss on investment property	9	123	-
Net loss/(gain) on financial assets at fair value	5	6,894	(186)
Working capital adjustments:			
Movement in concession rent debtor	9	(351)	(157)
Decrease in trade and other receivables		(213)	(192)
Increase in trade and other payables		(54)	369
		11,186	10,092
Dividends received		(1,756)	(1,191)
Interest paid		(3,299)	(1,985)
Tax paid		(2,663)	(1,903)
Net cash inflow from operating activities		**3,468**	**5,013**
Cash flows from financing activities			
Issue of redeemable participating preference Shares	6	15,130	40,357
Redemption of redeemable participating preference Shares	6	(17,476)	(7,460)
(Repayment)/utilisation of borrowings	9, 13	(3,752)	16,223
Borrowing arrangement fees	13	(193)	(867)
Distributions paid to Shareholders	7	(2,621)	(2,566)
Net cash (outflow)/inflow from financing activities		**(8,912)**	**45,687**
Cash flows from investing activities			
Purchase of investment properties and capital expenditure	9	(10,579)	(43,414)
Sale of investment properties		7,877	-
Purchase of investments at fair value	5	(21,004)	(25,050)
Sale of investments at fair value	5	23,369	14,959
Dividend received		1,756	1,191
Net cash inflow/(outflow) from investing activities		**1,419**	**(52,314)**
Net decrease in cash and cash equivalents		**(4,025)**	**(1,614)**
Cash and cash equivalents at the beginning of the year	15	4,164	5,778
Cash and cash equivalents at the end of the year	**15**	**139**	**4,164**

The accompanying notes on pages 24 to 45 form an integral part of 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 four wholly owned subsidiaries shown in note 19 (collectively the "Group").

2) Basis of preparation

Details of the Group's accounting policies are given below. The financial statements are presented in GBP thousands (£000).

a) Standards and amendments which are first effective for the period beginning 1 September 2022

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

Description	Effective date
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022

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

Several new standards, amendments and interpretations are effective for annual periods beginning after 1 September 2022 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 assessed 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 can 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.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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 after 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/loss on financial assets at fair value through profit or loss

Net gain on financial assets 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 25%, this rate increased from 19% on 1 April 2023.

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.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then the future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

m) Financial assets and 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.

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.

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.

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. Investments in daily traded open-ended funds are stated at net asset value as reported by the Manager.

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 the factors that market participants would consider 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.

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 transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all the risks and rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all 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. Transaction costs include professional fees for legal services.

After initial recognition, investment property is stated at fair value. The Directors state investment property at the valuation undertaken at the date of acquisition (which excludes transaction costs, which are therefore expensed immediately). 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. They are recognised in the Consolidated Statement of Comprehensive Income.

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Rental income from the investment properties is recognised on a straight-line basis, over the lease period; all are determined as operating leases in accordance with *IFRS 16 - Leases*. Tenant lease incentives are recognised as a reduction of gross rental income on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

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

The Board has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts in the financial statements. The Directors continually evaluate these judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses based upon historical experience and on other factors that they believe to be reasonable under the circumstances. Actual results may differ from the judgements, estimates and assumptions.

The key area of judgement and estimation 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 three interest rate swaps as part of its investment strategy:

	Swap 1	**Swap 2**	**Swap 3**
Counterparty	Barclays Bank Plc	Barclays Bank Plc	HSBC UK Bank Plc
Notional amount £'000	25,000	15,000	2,300
Effective date	22 October 2021	22 October 2021	11 February 2022
Termination date	22 December 2031	22 April 2025	11 February 2027
Interest paid on notional % per annum	1.049	0.5	1.75
Interest received on notional % per annum	Compounded daily SONIA + 0.109% per annum spread	Compounded daily SONIA + 0.109% per annum spread	Compounded daily SONIA

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 2023 is nil (2022: 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 2023 is nil (2022: 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. Not more than 10% of the assets can be invested in open-ended collective investment undertakings, including liquidity funds. 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:

Investments	**2023**	**Percentage**	**2022**	**Percentage**
	£000		**£000**	
Invesco Sterling Liquidity Fund	3,430	11%	10,500	25%
London Metric Property PLC	5,813	19%	5,719	14%
LXI REIT PLC	6,692	22%	9,715	23%
Segro Plc	4,661	15%	4,712	11%
Tritax Big Box REIT PLC	5,365	17%	5,091	12%
Urban Logistics REIT PLC	4,973	16%	6,327	15%
	30,934	**100%**	**42,064**	**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 units of other open-ended collective investment undertakings, including UCITS.

If market values for the Fund's investment portfolio (excluding the Invesco Sterling Liquidity Fund, which is expected to experience very low volatility in market price) had been 10% higher/lower at the year-end, total comprehensive income/equity for the period would increase/decrease by £2,750,000 (2022: £3,156,000).

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 (2022: nil).

The interest rate charged on the Fund's bank borrowings is a variable rate of SONIA 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 £3,398,000 (2022: £2,053,000), see note 13. If interest rates had been on average 0.25% higher, with all other variables held constant, total comprehensive income/equity for the period would decrease by £96,000 (2022: £99,000). If interest rates had been on average 1% lower, with all other variables held constant, total comprehensive income/equity for the period would increase by £386,000 (2022: £296,000).

Currency risk

At 31 August 2023 the Fund's assets and liabilities were all denominated in GBP (2022: 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 2023 the liquidity level was 20% (2022:26%).

The Directors may declare a suspension of the determination of the Net Asset Value in certain circumstances as set out in the Offering Document. To manage the Fund's overall liquidity, the Fund can 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 2023	**£000**	**£000**	**£000**	**£000**	**£000**
Trade and other payables	719	-	-	-	719
Interest payable	618	-	-	-	618
Current tax liability	-	-	-	-	-
Borrowings	-	-	80,204	-	80,204
Total liabilities	**1,337**	**-**	**80,204**	**-**	**81,541**

	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total
As at 31 August 2022	**£000**	**£000**	**£000**	**£000**	**£000**
Trade and other payables	728	-	-	-	728
Interest payable	317	-	-	-	317
Current tax liability	257	-	-	-	257
Borrowings	-		83,956	-	83,956
Total liabilities	**1,302**	**-**	**83,956**	**-**	**85,258**

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.

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 based on 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 based on 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 2023	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit or loss: equities	30,934	-	-	30,934
Financial assets at fair value through profit or loss: swaps	-	7,398	-	7,398
Total	**30,934**	**7,398**	**-**	**38,332**

	Level 1	Level 2	Level 3	Total
As at 31 August 2022	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit or loss: equities	42,064	-	-	42,064
Financial assets at fair value through profit or loss: swaps	-	5,527	-	5,527
Total	**42,064**	**5,527**	**-**	**47,591**

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. The Invesco Sterling Liquidity Fund is also classified as level 1 as it is daily traded and therefore its reported net asset value is considered to be akin to a quoted price in an active market.

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 directly or indirectly in the Swap. The fair value of the Swap is included within level 2. For all financial assets and financial liabilities not measured at fair value, the carrying amount is a reasonable approximation of fair value.

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 10 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 12.1% (2022: 4.3% to 8.9%). If the yields were to increase by 0.25% then the valuation would decrease by approximately by £7,493,000 or 4% (2022: increase by 0.25% would decrease the valuation by £8,840,000 or 4%).

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

	2023	2022
	£000	£000
Financial assets at fair value through profit or loss as at 1 September	42,064	37,914
Net acquisitions at cost during the year	21,004	25,049
Net disposals at cost during the year	(23,370)	(15,086)
Unrealised loss on REITs	(8,764)	(5,813)
Financial assets at fair value through profit or loss as at 31 August	**30,934**	**42,064**

The Swaps are marked to market by the respective Bank counterparty, being Barclays Bank plc or HSBC UK Bank plc on a weekly basis. Any movement in the fair value of the Swap is taken to net gain on financial assets at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

	2023	2022
	£000	£000
Financial assets/(liabilities) at fair value through profit or loss as at 1 September	5,527	(599)
Unrealised gain on Swap	1,871	6,126
Financial assets at fair value through profit or loss as at 31 August	**7,398**	**5,527**

	2023	2022
Net gain on financial assets at fair value through profit or loss	£000	£000
Unrealised loss on REITs	(8,764)	(5,813)
Realised loss on equities/REITs	(1)	(127)
Unrealised gain on swaps	1,871	6,126
	(6,894)	**186**

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 2023, 200 Management Shares were fully issued and unpaid (31 August 2022: 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 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 Consolidated 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.

Year ended 31 August 2023	Number of Participating Shares			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2022	50,361,803	53,057,407	23,435,895	**126,855,105**
Subscriptions for the period	4,078,473	3,745,234	3,092,288	**10,915,995**
Redemptions for the period	(4,929,106)	(5,062,070)	(2,689,095)	**(12,680,271)**
Share Class transfers for the period	978,038	(809,560)	-	**168,478**
As at 31 August 2023	**50,489,208**	**50,931,011**	**23,839,088**	**125,259,307**

Year ended 31 August 2022	Number of Participating Shares			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2021	45,778,631	43,947,610	14,729,509	**104,455,750**
Subscriptions for the period	6,627,205	11,835,213	9,322,425	**27,784,843**
Redemptions for the period	(2,509,553)	(2,333,077)	(616,039)	**(5,458,669)**
Share Class transfers for the period	465,520	(392,339)	-	**73,181**
As at 31 August 2022	**50,361,803**	**53,057,407**	**23,435,895**	**126,855,105**

Year ended 31 August 2023	Participating Share capital £000			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2022	504	529	234	**1,267**
Subscriptions for the period	41	37	31	**109**
Redemptions for the period	(50)	(50)	(27)	**(127)**
Share Class transfers for the period	10	(8)	-	**2**
As at 31 August 2023	**505**	**508**	**238**	**1,251**

Year ended 31 August 2022	Participating Share capital £000			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2021	458	439	147	**1,044**
Subscriptions for the period	66	118	93	**277**
Redemptions for the period	(25)	(23)	(6)	**(54)**
Share Class transfers for the period	5	(5)	-	**-**
As at 31 August 2022	**504**	**529**	**234**	**1,267**

Year ended 31 August 2023	Share premium £000			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2022	52,777	63,355	30,105	**146,237**
Subscriptions for the period	4,968	5,580	4,473	**15,021**
Redemptions for the period	(6,018)	(7,283)	(3,784)	**(17,085)**
Share Class transfers for the period	1,136	(1,138)	-	**(2)**
As at 31 August 2023	**52,863**	**60,514**	**30,794**	**144,171**

Year ended 31 August 2022	Share premium £000			
	A Shares	B Shares	C Shares	Total
Opening balance as at 1 September 2021	46,824	49,756	17,247	**113,827**
Subscriptions for the period	8,568	17,751	13,761	**40,080**
Redemptions for the period	(3,235)	(3,532)	(903)	**(7,670)**
Share Class transfers for the period	620	(620)	-	**-**
As at 31 August 2022	**52,777**	**63,355**	**30,105**	**146,237**

7) Dividends paid

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

Year ended 31 August 2023 Dividend payment date	£000	Dividend per Shares in issue (pence per share)
24 October 2022	647	1.30
23 January 2023	649	1.30
24 April 2023	662	1.30
24 July 2023	663	1.30
	2,621	**5.20**

Year ended 31 August 2022 Dividend payment date	£000	Dividend per Shares in issue (pence per share)
18 October 2021	615	1.35
4 January 2022	636	1.35
18 April 2022	648	1.35
18 July 2022	667	1.35
	2,566	**5.40**

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 2023			
	A Shares	**B Shares**	**C Shares**	**Total**
NAV per financial statements £000	55,009	68,413	31,221	**154,643**
Plus: Amortised property acquisition cost pricing adjustment £000	2,546	3,167	1,445	**7,158**
Concession rent adjustment	250	312	142	**704**
Pricing NAV £000	57,805	71,892	32,808	**162,505**
Participating Shares in issue (number)	50,489,208	50,931,011	23,839,088	**125,259,307**
Pricing net asset value per Participating Share (£)	**1.1449**	**1.4115**	**1.3762**	**1.2974**
IFRS NAV per share (£)	**1.0895**	**1.3432**	**1.3096**	**1.2345**

	Year ended 31 August 2022			
	A Shares	**B Shares**	**C Shares**	**Total**
NAV per financial statements £000	64,057	79,691	34,489	**178,237**
Plus: Amortised property acquisition cost pricing adjustment £000	2,818	3,506	1,516	**7,840**
Concession rent adjustment	123	153	67	**343**
Pricing NAV £000	66,998	83,350	36,072	**186,420**
Participating Shares in issue (number)	50,361,803	53,057,407	23,435,896	**126,855,106**
Pricing net asset value per Participating Share (£)	**1.3303**	**1.5709**	**1.5391**	**1.4695**
IFRS NAV per share (£)	**1.2719**	**1.5019**	**1.4716**	**1.4050**

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, professional judgement and historical transaction comparisons.

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. When deemed appropriate, the Board may accelerate the timing of the independent valuations to ensure the property portfolio value, and hence the price of the Fund, is materially stated. A review of the property valuations is also undertaken by the independent valuers at the Fund’s financial year end, with adjustments made where necessary to ensure that the portfolio is fairly stated to comply with IFRS requirements. The Board may also seek the opinion of a second independent valuer and agree a value within the range determined by the two valuers where this is considered appropriate.

Investment property by sector	**2023**	**2022**
	£000	**£000**
Distribution warehouse	107,105	123,065
Offices	25,125	30,630
Retail warehouse	65,085	58,404
	197,315	**212,099**

The following valuation table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
The valuations have been carried out using the Investment method where regard is given to comparable investment transactions (with emphasis on initial yields) and rentals achieved. Specific factors such as size, location, terms, covenant as well as other material factors are taken into account.	*Net rental yields:* • Distribution warehouses 4.8% - 6.5% (2022: 4.1% - 6.3%) • Retail warehouses 5.0% - 7.0% (2022: 6.0% - 7.3%) • Offices 7.3% -11.2% (2022: 6.2% - 8.4%) *Estimated rental value (£/square ft/annum):* • Distribution warehouses 4.75 – 8.25 (2022: 4.72 – 8.75) • Retail warehouses 12.43 – 16.000 (2022: 12.25 – 13.00) • Offices 12.75 – 15.25 (2022: 12.75 – 15.00)	The estimated fair value would increase/(decrease) if: • expected market rental growth were higher (lower); • void periods were shorter (longer); • the occupancy rates were higher/(lower); or • the rent-free periods were shorter/(longer).

	2023	**2022**
	£000	**£000**
As at 1 September	212,099	163,500
Additions at cost	11,124	43,414
Net gain from fair value adjustment*	(18,259)	5,028
Disposal at fair value	(8,000)	-
Movement in concession rent debtor	351	157
Closing balance at 31 August	**197,315**	**212,099**

*Differs from the cashflow due to deductions on cash paid to the seller receiving rent in advance from the tenant.

Investment property	2023 £000	2022 £000
Investment property	196,611	211,756
Concession rent debtor	704	343
	197,315	212,099

Investment property fair value movement	2023 £000	2022 £000
Unrealised (loss)/gain on investment property	(18,259)	5,028
Realised loss on investment property	(124)	-
	(18,383)	5,028

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.

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

Rental income earned and received from the investment properties during the financial year was £12,517,000 (31 August 2022: £11,327,000). At 31 August 2023 there was £1,221,000 deferred rental income (31 August 2022: £1,005,000) that had been received by the Fund which relates to the next financial year.

On 30 November 2022, the Group completed the acquisition of a retail park property known as North Durham Retail Park. The agreed purchase price is £9,900,000 plus £682,000 of acquisition costs. Rent paid to the seller in advance of £482,000 was deducted from the price paid. The Group retained £64,000 of the price agreed to be paid to the seller on the completion of outstanding building works. The property acquisition was fully funded through equity.

On 7 March 2023, the Group completed the sale of Prima House, Leeds. The property was purchased for £7,505,000 and sold for £8,000,000. The property was partly funded by debt of £3,752,000, which was repaid upon the sale.

During the period, £530,000 was spent on capital expenditure (included in additions at cost above).

10) Other income

On 8 October 2021, the Fund completed the acquisition of a retail park known as Marina Quay Retail Park, Rhyl. Under the terms of the sale agreement the purchase price was reduced by £72,000. This comprised £53,000 guaranteed income of which £48,000 was recognised last financial year and £5,000 was recognised in the current financial year.

11) Trade and other receivables

	2023 £000	2022 £000
Prepayments	3	10
Trade and other receivables	806	605
Total	**809**	**615**

12) Operating leases

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

	2023 £000	2022 £000
Within 1 year	12,525	12,192
After 1 year but less than 5 years	46,848	46,385
5 or more years	48,332	58,751
Total	**107,705**	**117,328**

The leases involve tenancy agreements with terms running to end dates between 2024 and 2042.

13) Borrowings

Non-current borrowings	2023 £000	2022 £000
Total loans before amortisation	80,851	84,603
Less: amortised borrowing arrangement fees	(647)	(647)
Total	**80,204**	**83,956**

On 8 March 2023, the Group completed the sale of Prima House, Leeds. The property was purchased for £7,505,000 and sold for £8,000,000. The property was partly funded by debt of £3,752,000, which was repaid upon the sale.

On 27 March 2023 the HSBC UK Bank Plc loan facilities were extended by one year to 11 February 2026, a borrowing arrangement fee of £32,000 was charged.

On 7 July 2023, the Barclays Bank Plc loan facility was extended by one year to 22 October 2025, a borrowing arrangement fee of £193,000 was charged.

The Fund holds the following loans as at 31 August 2023:

Loan Type	**Term loan 1**	**£5,000,000 RCF**	**Term loan 2**
Borrower	FWRE Limited	FWRE Limited	FWRE Two Limited
Counterparty	Barclays Bank Plc	Barclays Bank Plc	HSBC UK Bank Plc
Loan balance at period end £'000	64,628	-	16,223
Agreement date	22 October 2021	22 October 2021	11 February 2022
Termination date	22 October 2025	22 October 2025	11 February 2026
Base interest charged	Compounded daily SONIA	Compounded daily SONIA	Compounded daily SONIA
Interest margin % per annum	1.9	1.9	2.0

The Term loan 2 was used to part fund the acquisition of Marina Quays, Rhyl Milngavie, Glasgow and North Durham Retail Park. All properties (excluding Tesco, Tavistock) are held as security for the borrowings.

Interest is paid quarterly, and the loan capital becomes payable on expiry. Interest payable as at 31 August 2023 was £618,000 (31 August 2022: £317,000). Interest receivable in relation to the swaps as at 31 August 2023 was £195,000 (31 August 2022: £31,000).

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.

Finance expense	2023 £000	2022 £000
Interest expense	3,398	2,053
Revolving Credit Facility commitment fees	37	31
Borrowing arrangement fees amortisation	193	384
Total	**3,628**	**2,468**

A reconciliation of the movement in borrowings is given below:

	2023 £000	2022 £000
As at 1 September	83,956	68,217
(Repayment)/utilisation of borrowings	(3,752)	16,223
Loan arrangement fees paid	(193)	(867)
Loan arrangement fees amortised	193	383
Closing balance at 31 August	**80,204**	**83,956**

14) Trade and other payables – current

	2023 £000	2022 £000
Trade payables	370	156
Redemptions payable	-	264
Accruals	349	308
Total	**719**	**728**

15) Cash and cash equivalents

At 31 August 2023 the Fund had cash of £139,000 (31 August 2022: £4,164,000). Of this £138,000 was held with EFG International (31 August 2022: £4,163,000), which has a credit rating of A3 from Moody's and £1,000 was held between Barclays Bank Plc and HSBC UK Bank Plc (31 August 2022: £1,000). They respectively have credit ratings from Moody's of A1 and Aa2.

16) Property expenses

	2023 £000	2022 £000
Insurance	5	5
Property manager's fees (note 20)	1,152	1,212
Other property expenses (note 20)	30	14
Valuation fees	51	56
Total	**1,238**	**1,287**

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.

Up to 28 February 2023, the Group's Property Manager was Sequel Property Investments (Propriety) Limited ("Sequel").

FIM Capital Limited ("FIM") has established a property management business unit through which it can offer property management services to its clients.

The Group agreed with Sequel and FIM that, with effect from 1 March 2023, FIM were appointed to provide property management services to the Company and its subsidiaries in place of Sequel. Directors of Sequel's property management team have been directly engaged by FIM, within its property management business unit, thereby ensuring that the Group continues to benefit from the experience of Sequel's team in managing the Group's portfolio of properties.

Furthermore, Directors of Sequel have become indirect shareholders of FIM Holdings Limited, the owner of FIM. Craig Ewin has been appointed to the Board of FIM Holdings Limited (note 20).

The change in Property Manager also incorporated a reduction of property management fees. For property management services, the flat fee rate of 0.50% of the Gross Asset Value ("GAV") of the Group has been reduced as follows with effect from 1 March 2023:

- 0.5% on the first £125 million of GAV;
- 0.3% on GAV between £125 million and £250 million;
- 0.25% on GAV in excess of £250 million;

The monthly fee continues to be calculated and paid monthly on the basis of 1/12th of the above rate of the GAV on each valuation day. The Property Manager is also entitled to a property procurement fee of 0.25% of the net acquisition cost of the relevant property; and for the renewal of leases and the letting of property, a letting fee of £2,500 in respect of each lease event.

These fees will be in addition to the fees currently paid to FIM.

As at 31 August 2023 fees outstanding to be paid to the Property Manager were £91,000 (2022: £120,000). 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

	2023	2022
	£000	£000
Audit fees	64	64
Bank charges and safekeeping fees	13	11
Advisory fees	14	46
Regulatory fees	9	8
Directors' fees	64	63
Legal and professional fees	69	37
Sundry expenses	20	29
Total	**253**	**258**

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 25%, this rate increased from 19% on 1 April 2023.

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.

A reconciliation of the effective tax rate is given below:

	2023		2(22	
	%	£000	%	£000
(Loss)/profit before tax from continuing operations		(17,100)		12,818
Tax using the Fund's domestic tax rate	0.00		0.00	
Tax effect of:				
Tax on overseas dividends	1.65	283	1.56	200
Effect of corporation tax on UK property portfolio	8.81	1, 506	11.80	1,512
Changes in estimates related to prior years	0.01	1	0.26	34
Effective tax rate/tax charge	**12.85**	**1,791**	**13.62**	**1,746**

Corporate tax asset as at 31 August 2023 was £615,000 (as at 31 August 2022 a liability of £257,000).

19) Group companies

The Fund wholly owns the following subsidiaries, all incorporated in the Isle of Man:

Name	Company description	Immediate parent	Date of incorporation
FWRE Holdings Limited	Holding company	First World Hybrid Real Estate Plc	26 September 2013
FWRE Limited	Property investment company	FWRE Holdings Limited	22 August 2013
FWRE Holdings Two Limited	Holding company	First World Hybrid Real Estate Plc	24 August 2021
FWRE Two Limited	Property investment company	FWRE Holdings Two Limited	24 August 2021

20. Related party transactions

On 1 March 2023, Duggan Matthews was appointed as a Director of the Fund. Duggan is a Director and Chief Investment Officer of Marriott Asset Management (Pty) Ltd ("MAM") and is Chair of its Investment Committee. David Elliott is also a Director of the Fund and 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 2023, MAM received a Promoter fee from FIM of £83,000 (31 August 2022: £65,000).

David Elliott and Duggan Matthews 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 2023 and 31 August 2022.

On 1 June 2023, Graham Smith resigned as Director of FWRE Limited and FWRE Two Limited and Peter Craig was appointed. Peter is the Chief Financial Officer of FIM.

Both Philip Scales and Russell Collister are Directors of the Fund; Peter Craig is a Director of FWRE Limited. All are Directors of FIM Capital Limited (“FIM”) and have an ownership interest in FIM. Craig Ewin is a Director of the Fund and FIM Holdings Limited – the ultimate parent of FIM. FIM is the Fund’s Asset and Property 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 £792,000 (31 August 2022: £767,000), of which £130,000 remained outstanding at the year-end (at 31 August 2022: £156,000). Details of the Property Manger fee can be found in note 16. During the financial year, a Property Management fee was charged of £1,152,000 (31 August 2022: £1,212,000), of which £91,000 remained outstanding at the year-end (at 31 August 2022: £120,000).

FIM receive a listing sponsor fee of £5,000. During the year £5,000 was expensed (31 August 2022: £5,000) and £1,000 remained payable at the financial year end (31 August 2022: £1,000).

Ralph Haslett and Mary Tait are Directors of FIM and FIM Nominees Limited, which holds 125,259,307 Participating Shares in a nominee capacity at the year-end representing 100% of the total Participating Shares in issue (as at 31 August 2022: 126,855,106 Shares representing 100%).

FIM Nominees Limited also owns 100% (200 shares) of the Management Shares in issue at the 31 August 2023 and 31 August 2022.

21. Directors' interests

The Directors had the following interest in the shares of the Fund either directly or indirectly at 31 August 2023 and 31 August 2022:

Number of shares	**2023**	**2022**
Craig Ewin	A Shares: 665,519	A Shares: 224,762
	B Shares: 85,881	B Shares: 436,333

Directors' fees for the years ended 31 August 2023 and 31 August 2022 are shown below:

	2023	**2022**
	£'000	**£'000**
Craig Ewin	25	25
Elizabeth Greenhalgh	15	15
Mark Grace (including VAT)	23	23
	63	63

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 £190,000 (31 August 2022: £182,000), of which £31,000 remained outstanding at the year-end (at 31 August 2022: £37,000).

23. Capital commitments and contingent assets and liabilities

There were no other capital commitments or contingent assets and liabilities.

24. Subsequent events

On 29 September 2023 an interim dividend of £0.0130 was announced to shareholders with a record date of 29 September 2023 and a payment date of 23 October 2023. As a result of reinvested dividends, at the date these financial statements were signed Craig Ewin's overall interest in the A (Income) Class Shares increased to 672,828.

The NAV prices per share class as at 8 December 2023 were as follows:

- A (Income) Class GBP0.01 - £1.1381 per Share
- B (Accumulation) Class GBP0.01 Shares - £1.4193 per Share
- C (Accumulation) Class GBP0.01 Shares - £1.3821 per Share

Since 31 August 2023 up to the date these financial statements were signed, the Fund has received subscriptions of £2,571,000 and redemptions of £8,137,000 (these figures are gross for all share classes).

After the year end, twelve properties were independently revalued in accordance with the terms of the Fund's valuation policy.