Custodian REIT PLC

17 June 2022

Custodian REIT plc

("Custodian REIT" or "the Company")

Final Results

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its final results for the year ended 31 March 2022.

Property strategy

Custodian REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate providing an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate. The Company's portfolio is focused on smaller lots, principally targeting properties of less than £10m at acquisition, which offers:

- An enhanced yield on acquisition – with no need to sacrifice quality of property/location/tenant for income and with a greater share of value in 'bricks and mortar';
- Greater diversification – spreading risk across more assets, locations and tenants and offering more stable cash flows; and
- A higher income component of total return – driving out-performance with forecastable and predictable returns.

Financial highlights and performance summary

	2022	2021	Comments
Returns			
EPRA[1] earnings per share[2]	**5.9p**	5.6p	Increased due to stabilisation of rent collection following the COVID-19 pandemic, with a £0.3m decrease in the doubtful debt provision during the year (2021: £2.7m increase)
Basic and diluted earnings per share[3]	**28.5p**	0.9p	
Profit before tax (£m)	**122.3**	3.7	
Dividends per share[4]	**5.25p**	5.0p	Target dividend per share for the year ended 31 March 2022 of not less than 5.5p
Dividend cover[5]	**110.3%**	112.7%	In line with the Company's policy of paying fully covered dividends
NAV total return per share[6]	**28.4%**	0.9%	5.8% dividends paid (2021: 4.8%) and a 22.6% capital increase (2021: 3.9% capital decrease)
Share price total return[7]	**17.0%**	2.3%	Share price increased from 91.8p to 101.8p during the year
Capital values			
NAV and EPRA NTA[8] (£m)	**527.6**	409.9	Increased due to £94.0m of valuation increases, £5.4m profit on disposals and the acquisition of DRUM REIT for £19.1m of new shares
NAV per share and NTA per share	**119.7p**	97.6p	
Net gearing[9]	**19.1%**	24.9%	
Costs			
Ongoing charges ratio[10] ("OCR")	**1.94%**	2.48%	
OCR excluding direct property expenses[11]	**1.20%**	1.12%	Increases in ESG compliance and marketing costs, partially offset by NAV increasing above £500m which resulted in a marginal reduction in the rate of management fees
Environmental			
Weighted average energy performance certificate ("EPC") rating[12]	**C (61)**	C (63)	Continued improvements in the environmental performance of the portfolio

1 The European Public Real Estate Association ("EPRA").

2 Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.

3 Profit after tax divided by weighted average number of shares in issue.

4 Dividends paid and approved for the year.

5 Profit after tax, excluding net gains or losses on investment property, divided by dividends paid and approved for the year.

6 Net Asset Value ("NAV") movement including dividends paid during the year on shares in issue at 31 March 2021.

7 Share price movement including dividends paid during the year.

8 EPRA net tangible assets ("NTA") does not differ from the Company's IFRS NAV or EPRA NAV.

9 Gross borrowings less cash (excluding rent deposits) divided by property portfolio value.

10 Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.

11 Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.

12 For properties in Scotland, English equivalent EPC ratings have been obtained.

Commenting on the final results, David Hunter, Chairman of Custodian REIT, said:

“The year to 31 March 2022 has been a period of significant recovery for the Company’s net asset value and share price after the extreme challenges presented by the global pandemic.

“The recovery in NAV has been testament to the strength of the UK commercial property, allied to Custodian REIT’s focus on smaller regional property and the close management of the portfolio to maximise occupancy, rent collection, cash flow and earnings.

“Rent collection is back at pre-pandemic levels and tenants have honoured their deferred rent agreements allowing the Board to increase fully covered quarterly dividends to at least 5.5p in the forthcoming financial year.

“Although the impact of inflation and political uncertainty could lead to an economic downturn, we believe Custodian REIT’s portfolio, diversified by sector, geography and tenants, with low gearing will remain resilient in the face of any economic headwinds.”

Alternative performance measures

The Company reports alternative performance measures (“APMs”) to assist stakeholders in assessing performance alongside the Company’s results on a statutory basis, set out above. APMs are among the key performance indicators used by the Board to assess the Company’s performance and are used by research analysts covering the Company. Certain other APMs may not be directly comparable with other companies’ adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in Note 21.

Further information

Further information regarding the Company can be found at the Company's website www.custodianreit.com or please contact:

Custodian Capital Limited
Richard Shepherd-Cross / Ed Moore / Ian Mattioli MBE Tel: +44 (0)116 240 8740
www.custodiancapital.com

Numis Securities Limited
Hugh Jonathan / Nathan Brown Tel: +44 (0)20 7260 1000
www.numiscorp.com

Camarco
Ed Gascoigne-Pees Tel: +44 (0)20 3757 4989
www.camarco.co.uk

Property highlights

	2022 £m	*Comments*
Portfolio value	**665.2**	
Property valuation increases[13]:		
• From asset management initiatives	**13.4**	Detailed in the Asset management report
• Acquisition of DRUM REIT	**7.3**	The acquisition of DRUM REIT was completed at a discount to NAV
• General valuation increases	**73.3**	Primarily due to hardening yields in the industrial and logistics sector
	94.0	
Property acquisitions[14]	**63.5**	• A portfolio of 10 office, retail and industrial assets through the corporate acquisition of DRUM Income Plus REIT plc ("DRUM REIT") - £41.7m • Industrial units in York, Knowsley, Dundee and Nottingham - £11.1m • Offices in central Manchester - £6.2m • A retail warehouse in Cromer - £4.5m
Capital expenditure	**3.5**	Includes £1.2m completion of the redevelopment of an industrial site in West Bromwich
Profit on disposal[15]	**5.4**	• A portfolio of seven industrial assets for £32.6m, £5.1m ahead of valuation when the terms of sale were agreed • Two car showrooms in Stockport and Stafford for £13.9m, £2.6m ahead of valuation when the terms of sale were agreed • A retail warehouse in Galashiels for £4.5m, £1.8m ahead of valuation • Five smaller units in the retail and other sectors for £3.5m at valuation
Net cash deployment since the year end	**5.6**	• Grangemouth acquisition - £7.5m • Winchester acquisition - £3.7m • Derby disposal - (£5.6m)

13 Before acquisition costs of £2.3m.

14 Before rent top-ups of £0.3m.

15 Net of disposal costs of £0.5m.

Business model and strategy

Investment Policy

The Company's investment policy[16] is summarised below:

- To invest in a diverse portfolio of UK commercial real estate, principally characterised by individual property values of less than £10m[17] at acquisition.
- The property portfolio should be diversified by sector, location, tenant and lease term, with a maximum weighting to any one property sector or geographic region of 50%.
- To acquire modern buildings or those considered fit for purpose by occupiers, focussing on areas with:
  - High residual values;
  - Strong local economies; and
  - An imbalance between supply and demand.
- No one tenant or property should account for more than 10% of the rent roll at the time of purchase, except for:
  - Governmental bodies or departments; or
  - Single tenants rated by Dun & Bradstreet as having a credit risk score higher than two[18], where exposure may not exceed 5% of the rent roll.
- The Company will not undertake speculative development except for the refurbishment[19] of existing holdings, but may invest in forward funding agreements where the Company may acquire pre-let development land and construct investment property with the intention of owning the completed development.
- The Company may use gearing provided that the maximum LTV shall not exceed 35%, with a medium-term net gearing target of 25% LTV.

The Board reviews the Company's investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

Richard Shepherd-Cross, Investment Manager, commented: "Our smaller-lot specialism has consistently delivered significantly higher yields without exposing shareholders to additional risk".

16 A full version of the Company's Investment Policy is available at custodianreit.com/wp-content/uploads/2021/02/CREIT-Investment-policy.pdf.

17 The Board proposes increasing this upper lot-size limit to £15m at the Company's forthcoming AGM.

18 A risk score of two represents "lower than average risk".

19 The Board proposes broadening the definition of refurbishment to include the redevelopment of existing holdings, to a maximum 10% of the Company's gross assets, at the Company's forthcoming AGM.

Growth strategy

The Board is committed to seeking further growth in the Company to increase the liquidity of its shares and reduce ongoing charges. Our growth strategy involves:

- Organic growth through share issuance at a premium to NAV;
- Broadening the Company's shareholder base, particularly through further penetration into online platforms;
- Becoming the natural choice for private clients and wealth managers seeking to invest in UK real estate;
- Taking market share from failing open-ended funds;
- Strategic property portfolio acquisitions and corporate consolidation.

In all situations, the Board ensures that property fundamentals are central to all decisions.

Acquisition of DRUM Income Plus REIT plc

In November 2021 the Company acquired DRUM Income Plus REIT plc ("DRUM REIT") at a 28% discount to its net asset value, resulting in a £7.3m valuation gain post-acquisition. Since acquisition DRUM REIT has traded well, enhancing the Company's EPRA earnings per share and maintaining its 'red-book' valuation at £49m. Since the year end new lettings have been secured at certain sites which should further enhance total returns in the coming periods.

David Hunter, Chairman of Custodian REIT plc, commented: "Shareholders are seeking the consolidation of smaller REITs as larger funds typically offer lower operating costs with better liquidity. This acquisition demonstrated that the Company and its Investment Manager are capable of delivering accretive corporate acquisitions which benefit both existing and incoming shareholders."

Diverse portfolio

Top ten tenants	Asset locations	Annual passing rent (£m)	% portfolio income
Menzies Distribution	Aberdeen, Edinburgh, Glasgow, Ipswich, Norwich, Dundee, Swansea, York	1.5	3.4%
B&M Retail	Swindon, Ashton-under-Lyne, Plymouth, Carlisle	1.3	2.7%
B&Q	Banbury, Weymouth	1.1	2.4%
Wickes Building Supplies	Winnersh, Burton upon Trent	0.8	1.8%
First Title (t/a Enact Conveyancing)	Leeds	0.6	1.4%
Sainsbury's	Torpoint, Gosforth	0.6	1.4%
Regus (Maidstone West Malling)	West Malling	0.6	1.4%
H&M	Winsford	0.6	1.4%
Next	Eurocentral, Evesham	0.6	1.2%
VW Group	Derby, Shrewsbury	0.5	1.2%

Sector	Weighting by income 31 Mar 2022
Industrial	38%
Retail warehouse	21%
Office	17%
Other	13%
High street retail	11%

Location	Weighting by income 31 Mar 2022
West Midlands	18%
North-West	19%
South-East	14%
East Midlands	13%
Scotland	10%
North-East	12%
South-West	9%
Eastern	4%
Wales	1%

Our environmental, social and governance (“ESG”) objectives

- **Improving the energy performance of our buildings** - investing in carbon reducing technology, infrastructure and onsite renewables and ensuring redevelopments are completed to high environmental standards.
- **Reducing energy usage and emissions** - liaising closely with our tenants to gather and analyse data on the environmental performance of our properties to identify areas for improvement.
- **Achieving social outcomes and supporting local communities** - engaging constructively with tenants and local government to ensure we support the wider community through local economic and environmental plans and strategies and playing our part in providing the real estate fabric of the economy, giving employers safe places of business that promote tenant well-being.
- **Understanding environmental risks and opportunities** – allowing the Board to maintain appropriate governance structures to ensure the Investment Manager is appropriately mitigating risks and maximising opportunities
- **Complying with all requirements and reporting in line with best practice where appropriate** - exposing the Company to public scrutiny and communicating our targets, activities and initiatives to stakeholders

Investment Manager

Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. Richard Shepherd-Cross is Managing Director of the Investment Manager. Richard has over 25 years' experience in commercial property, qualifying as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team.

Richard established Custodian Capital Limited as the Property Fund Management subsidiary of Mattioli Woods plc and in 2014 was instrumental in the launch of Custodian REIT plc from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £650m.

Richard is supported by the Investment Manager's other key personnel: Ed Moore - Finance Director, Alex Nix - Assistant Investment Manager and Tom Donnachie – Portfolio Manager, along with a team of six other surveyors and four accountants.

Chairman's statement

The year to 31 March 2022 has been a period of significant recovery for the Company's NAV and share price after the extreme challenges presented by the global pandemic. NAV total return for the year was 28.4%, up from 0.9% in the previous financial year due primarily to valuation increases of £94.0m during the year. Rent collection is back at pre-pandemic levels and tenants have honoured their deferred rent agreements which has taken recurring (EPRA) earnings to 5.9p per share.

Acknowledging the importance of income for shareholders I was delighted the Board was able to increase quarterly dividends during the year which took the total dividend declared for the year to 5.25p per share. This dividend was one of the highest fully covered dividends amongst its peer group of listed property investment companies[20] for the year ended 31 March 2022 and, in line with the Company's policy, was 110% covered by EPRA earnings.

The Company is targeting a dividend per share of at least 5.5p per share for the year ending 31 March 2023.

Strategy for future growth

Custodian REIT supportively acknowledges the market desire for consolidation in the REIT sector, but inertia and entrenched interests can make delivering consolidation much harder than it should be. Despite these challenges we were delighted to announce the all-share acquisition of Drum Income Plus REIT in November 2021. Alignment of property strategy and a shared focus on income returns made a compelling rationale for the benefit of shareholders old and new.

The proposed closure of two large open-ended property funds by Aviva and Aegon and the anticipated sale of the entire £940m Janus Henderson UK property fund portfolio has marked a watershed for open-ended property funds offering theoretical daily dealing to retail investors. With universal recognition that the open-ended model has failed investors we see diversified property investment companies as the natural choice for retail investors and wealth managers seeking income from commercial property.

Shareholder income is derived from earnings and Custodian REIT operates with one of the highest earnings yields of its peer group giving it the greatest capacity to pay sustainable, fully covered dividends, which will make up the largest part of total return to shareholders. Based on most recently reported EPRA earnings Custodian REIT delivered an earnings yield[21], as at 31 March 2022 of 5.9%, versus a peer group average of 4.1%.

Net asset value

20 Source: Numis Securities Limited.

21 EPRA earnings per share divided by average share price.

The NAV of the Company at 31 March 2022 was £527.6m, approximately 119.7p per share, an increase of 22.1p (22.6%) since 31 March 2021:

	Pence per share	£m
NAV at 31 March 2021	97.6	409.9
Issue of equity[22]	(0.2)	19.6
Valuation movements relating to:		
- Acquiring DRUM REIT at a discount to NAV	1.7	7.3
- Asset management activity	3.0	13.4
- General valuation increases	16.7	73.3
Valuation increase before acquisition costs	21.4	94.0
Impact of asset acquisition costs	(0.5)	(2.3)
Valuation increase including acquisition costs	20.9	91.7
Profit on disposal of investment property	1.2	5.4
Net valuation movement	22.1	97.1
Revenue	8.9	39.9
Expenses and net finance costs	(3.2)	(14.7)
Dividends paid[23]	(5.5)	(24.2)
NAV at 31 March 2022	**119.7**	**527.6**

The net valuation increase of £94.0m saw significant increases in the industrial and logistics and retail warehouse sectors, comprising in aggregate 68% of the portfolio by value, which together have been the principal drivers of NAV growth through the year. Also of note has been the return to modest growth in the latter part of the year in our High Street portfolio, perhaps marking an inflection point in investor demand. Property valuation commentary is detailed in the Investment Manager's report.

Custodian REIT's investment strategy has stood the Company in good stead again this year. For the year to March 2022, NAV total return of 28.4% has outstripped total share price return of 17.0%, which the Board regards as vindication of the quality of the portfolio and dividend capacity that might support future share price growth.

During May and June 2022 all of the serving Non-Executive Directors acquired shares in the Company, reflecting the Board's view that the Company's current share price does not sufficiently reflect the true value of its net assets.

The market

22 Comprising the tap issue of 550,000 shares on 7 May 2021 at 101.5p per share, a 6% premium to NAV, and the issue of 20,247,040 shares as consideration for the acquisition of DRUM REIT on 3 November 2021 at their market value of 94.5p.

23 Dividends totalling 5.625p per share (1.75p relating to the prior year and 3.875p relating to the year) were paid on shares in issue throughout the year.

Thematic investment continues to dominate fund raising and is polarising property investment demand and pricing. The weight of capital chasing the industrial and logistics sector and more recently retail warehousing has led to some significant yield compression[24] and has boosted capital value returns for investors in logistics specialists. While this yield compression has led to NAV growth for existing investors, the counterbalance is that income yields are being materially squeezed. Custodian REIT's regional smaller property specialism, targeting the marginal income advantage from smaller lots which offer a higher rental yield for the same level of property and tenant risk, has never been of greater relative importance than in current market conditions.

With logistics property yields now by some distance at historical lows, investors are acutely sensitive to any hint of slowdown from operators such as Amazon. At a time of rising interest rates we simply do not believe that yield compression driven growth will continue in logistics property over the next two years. Without further yield compression, investors are relying on continuing high levels of rental growth to deliver returns, which again points to the fortunes of the operators. A reversal of returns from logistics property will quickly highlight the risks inherent in a single sector property strategy, and we believe would generate a re-focus on diversified strategies where managers can exploit mispricing in sub-sectors of the office and retail markets, while still enjoying rental growth from industrial, logistics and retail warehousing.

24 An increase in the valuation of a property due to an excess of demand over supply.

Property investment strategy

The Company targets smaller regional properties, typically below the value level sought by larger investment funds, which results in higher yields and more robust vacant possession values with better mitigation against binary tenant and geographical risk compared to investing in larger lots.

Since 2016 the Company's upper target lot-size has been £10m but capital values have seen significant price inflation since then, particularly in the industrial and logistics sector. The Board therefore recommends that shareholders approve an increase in the upper target lot-size from £10m to £15m at the Company's next Annual General Meeting ("AGM") on 31 August 2022. While even £15m remains below the general level of institutional demand, assets larger than £10m will only be acquired where we can still achieve a beneficial yield margin relative to larger lots and the proposed change will offer the Investment Manager the flexibility to consider a wider range of opportunities that fit the Company's investment policy.

The Board will also propose broadening its investment policy's definition of refurbishment to include the redevelopment of existing holdings, to a maximum 10% of the Company's gross assets, at the Company's forthcoming AGM to provide flexibility to maximise shareholder returns from existing assets.

Borrowings

Since the year end the Company has arranged a £25m tranche of 10 year debt with Aviva Real Estate Investors ("Aviva") at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with Royal Bank of Scotland ("RBS"), acquired via the DRUM REIT acquisition. This refinancing will mitigate interest rate risk and refinancing risk for shareholders and increase the proportion of the Company's agreed debt facilities that are at fixed rates of interest from 61% to 74%. The refinancing maintains the significant accretive margin between the Company's 3.2% weighted average cost of debt post-refinancing and property portfolio net initial yield of 5.7%.

Investment Manager

The performance of the Investment Manager is reviewed each year by the Management Engagement Committee ("MEC"). During the year the fees paid to the Investment Manager were £4.4m (2021: £3.8m) in respect of annual management, administrative and transaction fees. Further details of fees payable to the Investment Manager are set out in Note 18.

The Board is pleased with the performance of the Investment Manager, particularly completing the corporate acquisition of DRUM REIT and its continued successful asset management initiatives, detailed in the Investment Manager's report and Asset management report respectively, which contributed significantly to increases in net asset value, portfolio value and income. The Board is satisfied that the Investment Manager's performance remains aligned with the Company's purpose, values and strategy.

Board succession

After eight years of service, Matthew Thorne has indicated his intention to retire as Non-Executive Director of the Company at the AGM on 31 August 2022, in line with its succession plan. The Board would like to thank Matthew for his significant contribution to the development of the Company since his appointment on IPO in 2014.

Responding to Matthew's expected departure we are delighted to welcome Malcolm Cooper who joined the Board on 6 June 2022 and will offer a range of skills including the financial expertise to take on the role of Chair of the Audit and Risk Committee and maintain the Board's property and governance experience. We look forward to the contribution Malcolm will make.

The Board is conscious of stakeholder focus on diversity and recognises the value and importance of diversity in the boardroom. No Directors are from a minority ethnic background but the Company's Board contains two women which satisfied the gender diversity recommendations of the Hampton-Alexander Review for at least 33% female representation on FTSE350 company boards at the year end. As a constituent of the FTSESmallCap Index Custodian REIT is not bound by this recommendation. The Board supports the overall recommendations of the Hampton-Alexander and Parker Reviews for appropriate gender and ethnic diversity although it is not seen to be in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board at this point.

The recruitment process involved the use of external consultants and focused on key skills a new Director would bring including financial experience as well as diversity of experience, background and approach as well as the traditional facets of gender, ethnicity and age.

Environmental, social and governance

The Board recognises that its decisions have an impact on the environment, people and communities. The Board also believes that the Company's property strategy and ESG aspirations create a compelling rationale to make environmentally beneficial improvements to its property portfolio and incorporate ESG best practice into everything the Company does.

On 1 April 2021 the Board constituted an ESG Committee to: set and amend where necessary the Company's environmental key performance indicators ("KPIs") and monitor its performance against them; ensure it complies with its environmental reporting requirements and best practice; assess the engagement with the Company's environmental consultants and assess the level of social outcomes being achieved for its stakeholders and the communities in which it operates.

The Company's ESG policy outlines our approach to managing ESG impacts and provides the framework for setting and reviewing environmental and social objectives to ensure we are continuously improving our performance and setting a leadership direction.

As a result, the Board has committed to:

- Understanding environmental risks and opportunities;
- Improving the energy performance of our buildings;
- Reducing energy usage and emissions;
- Achieving social outcomes and supporting local communities; and
- Complying with all requirements and reporting in line with best practice where appropriate.

Progress towards these commitments during the year, details of the Company's environmental policy and performance against its targets are contained within the ESG Committee report within the Strategic report.

The Board is determined to ensure the Company's pathway towards net zero carbon fits with stakeholder expectations and the Company's property strategy. We see the careful implementation of a practical carbon reduction strategy as a crucial next step in the Company's ESG journey and during the course of the year ending 31 March 2023 we will engage advisors to assist the Investment Manager in developing a detailed plan to achieve this.

Cladding

Custodian REIT's portfolio has no exposure to 'high risk' assets which are typically either high-rise buildings (those over 18m tall) which use cladding in their construction or those used for multiple residential occupation. However, during the year the Board instigated a detailed review of the Company's cladding risks and obligations involving the Investment Manager and the Company's solicitors. This review has resulted in the Investment Manager implementing a more extensive cladding policy, moving beyond the mandatory fire risk assessment requirements for properties where the composition of cladding material is unknown and considering core-drilling and replacing, where necessary, cladding not compliant with Loss Prevention Certification Board guidelines.

Company name

To better reflect the Company's focus on income and to facilitate retail investors more easily accessing the Company's shares via online platforms, the Board will propose changing the Company's name from Custodian REIT plc to Custodian Property Income REIT plc at the 31 August 2022 AGM.

Outlook

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy and diversified portfolio are well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure. Capital flows out of the failing open-ended property fund model and investors moving from a yield compression fuelled capital growth strategy to a long-term, secured income strategy will find their interests aligned with Custodian REIT.

Inflation is a clear and present risk in the market today. Traditionally investors have looked to real estate as a hedge against the negative impact of inflation on investment returns as over the longer term historically property values and rents increase in an inflationary environment. Following a period of growth, the challenge for real estate companies is to own properties with further rental growth potential whose valuation will most closely keep pace with rising prices; Custodian REIT's approach to this challenge is expanded upon in the Investment Manager's report.

The impact of inflation, particularly in energy and food prices, on consumer spending, supply chain constraints and the uncertainty caused by the war in Ukraine and the aftermath of the COVID-19 pandemic could lead to an economic downturn but we believe Custodian REIT's portfolio, diversified by sector, geography and tenants, with low gearing will remain resilient in the face of any economic headwinds.

Income is likely to form the greater component of total return over the next phase of the property market and we believe that Custodian REIT's strong income yielding portfolio, supported by higher-than-peer group EPRA earnings per share, will underpin shareholder returns.

David Hunter
Chairman
16 June 2022

Investment Manager's report

The UK property market

Market sentiment remains strongly positive for the industrial and logistics sector. Positivity has emerged, post COVID-19 lockdowns, for central London and major regional city offices and the retail warehouse sector has challenged the general retail malaise. As we have reported over the last six months there is a nascent recovery in sentiment towards high street retail, but only in prime pitches and in leading retail centres. So, with the exception of secondary retail, business park offices and secondary leisure schemes, market demand is driving value increases across the board which has led directly to seven consecutive quarters of NAV growth for Custodian REIT.

Sector by sector the Custodian REIT portfolio has followed the wider market trends during the year with, like for like, the industrial and logistics valuation increasing by 26.4%, retail warehousing increasing 16.4% and high street, although decreasing by 4.8% in the year, bottoming out and showing a 7.3% increase over the last six months. The office portfolio showed a slight like-for-like increase in value of 1.9% reflecting the 50% weighting to business park offices, which have been a slight drag on performance. Prime regional city centre offices have fared better post COVID-19 lockdowns. The current strategy is to weight our office allocation away from business parks and towards strong city centres, as recent acquisitions in Manchester and Oxford have demonstrated, where we are witnessing the strongest occupier and investor demand and we believe the office portfolio is set fair to see growth.

There is rightly a keen focus on inflation at present and whether real estate investment can offer a degree of inflation hedging. In short, the answer must be 'yes' as rents should grow over time, but with typically five-yearly rent reviews and average unexpired lease terms of circa five years, investors should not expect a straight-line relationship between rents and inflation. Much focus is currently on RPI and CPI linked rent reviews, generally capped at up to 4% per annum, which of course provide shorter-term comfort but can have the effect of creating bond like investment characteristics with a greater emphasis placed on tenant covenant than the property fundamentals. At some point in a property's life cycle rents will always be re-based to open market values. An over-reliance on index linked rent reviews can lead to disparity between investment values and underlying property values. Over the long term we do not feel indexed rent reviews are a worthy substitute for owning good real estate where we back open market rent reviews to deliver rental growth. For long-term investors, such as Custodian REIT, the aim is to provide inflation protection from the bricks and mortar, not from the contractual terms of the leases.

The table below shows how Custodian REIT's portfolio rental growth performance has played its part in mitigating the negative impacts of inflation on costs and interest rates. Notably, in the last six months all sectors have shown rental growth:

	Like-for-like rental value change	
Sector	12 months to 31 March 2022	6 months to 31 March 2022
Industrial	+10.7%	+4.9%
Retail warehouse	-1.7%	+0.3%
Office	+2.7%	+1.1%
Other	-2.9%	+1.9%
High street retail	-5.3%	+2.0%
Whole portfolio	+3.8%	+2.9%

Across the industrial and logistics portfolio, notwithstanding the rental growth to date, the average rent stands at only £6.17 per sq ft for let properties (£5.27 including vacancies) with an estimated rental value of £7.05 per sq ft (£6.20 including vacancies), suggesting a latent rental uplift of c.14%. Furthermore, both passing rents and estimated rental values are some way below the rent required to bring forward new development, indicating further growth potential.

Retail warehousing and high street retail rents appear to have bottomed out and we are seeing some recent demand led rental growth in these sectors. Importantly retail rents are growing from a low base, following a period of rental decline making them affordable for tenants. By way of example, the average retail warehouse rent across the portfolio stands at circa £14.30 per sq ft (£13.58 including vacancies), broadly in line with current estimated rental values and much lower than average market levels.

In select locations, notably prime regional city centres, we are seeing office rents increasing. This is by no means applicable to all regional offices but is focused on high quality, flexible office space with strong environmental credentials. The recent acquisition of 60 Fountain Street in Manchester is an example of how Custodian REIT is taking advantage of the opportunity to reposition property to meet the expected demands of tenants, post pandemic, and to pick up the higher rents attributable to refurbished space.

The greater driver of inflation appears to be cost-push rather than demand-pull as the economy struggles with supply chain constraints, energy price increases, labour shortages and the aftermath of pandemic restrictions. These factors all mitigate against widespread, low cost, speculative development which would otherwise help resolve the demand/supply imbalance that is promoting rental growth.

We believe Custodian REIT's portfolio is particularly well positioned to see rental growth as it is focused on smaller regional properties:

In the industrial and logistics sector, which accounts for 49% of the portfolio by value, smaller properties are more expensive to develop, pro-rata, so require higher rents to justify development. Rents will continue to grow until they balance out inflation in build costs.

The retail warehouse portfolio is almost exclusively focused on DIY, homewares, discounters and food, all let off affordable rents. This occupier profile is best matched with current market demand and so well placed to pick up rental growth.

We have reorganised our high street retail portfolio over the last two years, exiting most of the secondary retail locations. We have let three vacant high street properties during the year and have terms agreed or are seeing active demand for the very limited remaining vacant space we have in the high street portfolio from both retail and leisure occupiers. Low vacancy rates in prime locations and occupier demand should be supportive of future rental growth.

In the office portfolio we have identified, or are progressing, a number of refurbishment opportunities with a keen eye on environmental improvements. Owners of smaller regional offices are often not sufficiently well resourced to create high quality small suite offices that are a match for the larger floorplates. However, we believe that occupier demand will be focused on higher quality space to support businesses in attracting their employees back into the office. We believe that by positioning our office portfolio to meet occupier demand we will reduce vacancy and drive rental growth.

Prevailing investment approach

Based on our assessment of the current market, our strategy of a regionally focused diversified portfolio, set out below, has proven resilient and we expect to continue to reinvest the proceeds from selective disposals.

- Maintain weighting to industrial and logistics - assets in this sector still have latent rental growth, but yields are 'topping out' and there have been recent significant share price decreases in the large distribution shed sector over fears of decreasing demand for new space;
- Retail warehousing let off low rents which should recover from 2021 levels;
- Selective regional offices with a focus on strong city centre locations instead of out-of-town business parks;
- Drive thru' expansion involving acquisition and development where rental growth is anticipated;
- Selective high street retail assets in the country's strongest locations where rents have stabilised and there is potential for growth; and
- Refurbishment of existing property, maximising all opportunities to invest in the quality of our assets and support our ESG goals.

Sectoral view

Industrial and logistics

The industrial and logistics sector has been flooded with capital, much of it overseas private equity, which has been a big driver of price inflation. The fundamental occupational dynamics for smaller industrial and logistics assets continue to support rental growth: increased demand from the logistics sector servicing ‘E-tailing’ and the onshoring of the national supply chain; lack of supply of modern, fit-for-purpose units and build cost inflation which is setting higher threshold rents to fund development. All of this has led to valuation growth which has been strongly positive for Custodian REIT. Vacancy rates are very low, against long-term averages, supporting cash flow and opportunities to invest at prices that are fully supported by vacant possession values still exist amongst smaller regional properties. Recently there have been indications that occupational demand for large distribution sheds may be decreasing, with Amazon suggesting it potentially has over-capacity, but the favourable dynamics of smaller lot-sizes which have seen less recent speculative development and are less reliant on the large retailers should make the Company’s portfolio defensive.

In summary:

- Occupational demand is robust; supply is tight
- Vacancy rate below the long-term average
- Latent rental growth potential
- Investment demand at record levels with pricing to match
- Target sector for well-priced opportunities

High street retail

The high street retail sector is starting to find its feet after a difficult four years. The pandemic cleared out the last of the ‘lame ducks’ on the high street, so most retailers who are still trading appear robust and want to be in physical stores. In prime locations rents appear to be bottoming out, or even seeing a slight re-bound. Lower rents are supporting occupier demand and reducing vacancy rates and void periods, in prime locations, which is providing a degree of confidence to investors not seen for some time. The Company’s high street retail portfolio is, by and large, concentrated on retailers of essentials such as groceries, pharmaceuticals, banking and discount items rather than luxury or fashion items. This focus on ‘need’ versus ‘want’ retailers should prove more defensive as consumer spending capacity decreases in the current inflationary environment.

In summary:

- Over-supply - rents have suffered but are bottoming out

Retail warehouse

Out-of-town retail has seen a quick turnaround in investor demand over the last 24 months, most particularly in the last 12 months. The combination of convenience, lower costs per square foot and the complementary offer to online retail has kept these assets trading strongly most notably amongst DIY, discounters, homewares and food retailers, which should prove defensive if consumer spending levels decrease. As the second largest sector in the Custodian REIT portfolio, the recovery in market sentiment towards out-of-town retail has been positive and vacancy rates remain low.

In summary:

- Units let off low rents
- Lower costs of occupation
- Complementary to online

Offices

The office sector is likely to be forever changed following the mass working from home experiment of the pandemic despite the government's current drive to encourage a return to the office and the uncertainty a potential economic downturn brings. In truth, the change that this has brought about has been an acceleration of a trend that was already embedded. Prime, regional city centres appear to be showing demand from occupiers and investors alike and have outperformed business park offices. A clear trend that has emerged is the need for landlords to provide a greater level of service and flexibility to office tenants, the so called 'hotelisation' of offices.

The 'hotelisation' of offices

We expect a 'hotelisation' of office buildings to be necessary to entice employees away from their home office while driving rents higher.

The COVID-19 pandemic led many to call the demise of the office and valuations plummeted as employees set up work at kitchen tables across the country, but we do not believe that offices will become redundant and in 'the eye of the pandemic' Custodian REIT acquired offices in Manchester and Oxford and is using the former as a trial run for the next phase of office investing: 'the hotelisation of offices'.

The Company is not quite breaking new ground but we are at the vanguard of other landlords with akin to a concierge service for office occupants, giving flexibility and services that are not typical in standard 25-year leases. While the concept is yet to be proven we know that tenants want more from their landlords than just a lease.

From conversations we are having with occupants and being occupants ourselves as a business, we know that there is nothing tenants hate more than looking at offices and being shown floor after floor of empty space with grey carpets. They don't want to take a five-year lease, have to fit the space out and install a broadband connection; they don't have interest in it, they don't have time, or the resources to do it. On top of those costs, tenants then pay dilapidation costs to the landlord when they leave and must return the building to the state it was in when they took it.

What you are asking tenants to do is fit out an office, then strip it out, and put it all in a skip and that is not good for their ESG credentials.

Instead, we plan to offer tenants a 'turnkey' office with all facilities, fit out, and services managed by the Investment Manager. Occupants want a space they can walk into and most businesses need the same thing; a large meeting room, a small meeting room, a breakout area, a kitchen, a comfortable reception, desks with an internet connection as most people work from laptops, and there will be an element of hotdesking. Companies expect a flexible workspace where they will have three days a week heavy use.

Overall, we are seeking to invest in making the offices 'nicer than being at home' so people actually want to work there.

We are trialling the concept with the building in Manchester, and this includes converting the top floor into a covered roof terrace with a coffee lounge, additional meeting rooms for tenants to use and a yoga studio. Having spoken to tenants, we are confident they will pay more for a space that they can just walk into and start operating from. Most say they are willing to pay more to take all the hassle away and this will minimise vacancies and drive the rents higher, but we will be selective over appropriate locations for this format and will ensure upgrades are properly costed to ensure estimated costs are supported by expected rental and valuation increases.

This is just consumer behaviour playing out. People don't buy cars anymore, they lease them with a service plan because that takes the problem away. You lease your phone and when the battery starts to die, you trade it in for a new one.

People are demanding a higher level of service but they do not want the same level of responsibility and ownership as 20 years ago.

Other

Our key sub-sector for growth within the alternative sector is drive-through where we have grown our holding to eight assets through acquisition, development or conversion of existing restaurant sites, with a further conversion and acquisition in the pipeline. We believe these assets offer significant rental growth potential and the conversions carried out during the year were subject to fierce occupier competition from established operators and, in particular, new entrants into the UK market from North America.

Sub-sector of 'Other' sector assets	Weighting by income 31 Mar 2022	Weighting by income 31 Mar 2021
Motor trade	24%	35%
Gym	20%	18%
Pub and restaurant	18%	16%
Drive-through	14%	7%
Trade counter	8%	7%
Leisure	8%	9%
Other	8%	8%
Total of 'Other' sector	100%	100%

ESG

The sustainability credentials of both the building and the location will be evermore important for occupiers and investors. As Investment Manager we are absolutely committed to the Company's challenging goals in relation to ESG and believe the real estate sector should be a leader in this field.

ESG has become an imperative for many investors. Commercial real estate is a significant contributor to national emissions so we believe an emphasis on how we can improve the "E" (Environmental) is particularly relevant for real estate. In this regard we are striving to beat the Company's target to improve the Energy Performance Certificates ("EPC") of the portfolio. During the year the Company has updated EPCs at 20 units across 15 properties covering 358k sq ft for properties where existing EPCs had expired or where works had been completed. For updated EPCs, there was an aggregate decrease in rating of 34 energy performance asset rating points.

Energy performance and emissions are important considerations across all redevelopments and refurbishments in the portfolio as is the importance of "S" (Social) in creating an engaging, appropriate and sustainable (in all senses of the word) built environment. We believe that ESG improvements are an opportunity for shareholders to benefit from the enhanced rents, valuations and 'lettablilty' of the portfolio which should deliver valuation improvements over and above the cost of the investment. Investing in real estate that meets the ESG requirements of occupiers and legislation should lead to shorter periods of vacancy, higher rents and enhanced values. Remembering the "G" (Governance) we have policies, embedded in our strategy, to keep Custodian REIT on target to meet the required standards but we remain focused on delivering returns at the same time. The targets the Company has set itself are set out in the ESG Committee report.

Property portfolio balance

The property portfolio is split between the main commercial property sectors in line with the Company's objective to maintain a suitably balanced investment portfolio. The Company has a relatively low exposure to office and high street retail combined with a relatively high exposure to industrial and to alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are:

Sector	Valuation 31 March 2022 £m	Weighting by income[25] 31 March 2022	Valuation 31 March 2021 £m	Weighting by income 31 March 2021	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	Weighting by value 31 March 2022	Weighting by value 31 March 2021
Industrial	325.1	38%	270.2	41%	69.1	67.5	49%	49%
Retail warehouse	125.4	21%	99.7	21%	17.0	16.7	19%	18%
Office	88.1	17%	54.8	12%	0.1	(0.3)	13%	10%
Other[26]	76.9	13%	84.4	16%	4.7	4.7	12%	15%
High street retail	49.7	11%	42.8	10%	(4.2)	(4.2)	7%	8%
Gain on acquisition of DRUM REIT	N/a	N/a	N/a	N/a	7.3	7.3	N/a	N/a
Total	665.2	100%	551.9	100%	94.0	91.7	100%	100%

For details of all properties in the portfolio please see custodianreit.com/property/portfolio.

25 Current passing rent plus ERV of vacant properties.

26 Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

Acquisitions

The Company invested £63.5m in the following asset acquisitions during the year:

- A 20k sq ft office building on Fountain Street, Manchester for £6.25m. The property comprises basement parking and six floors let to Leyton UK, Meridian Healthcomms, Venditan and Fourthline with an aggregate annual rent of £407k, reflecting a net initial yield[27] ("NIY") of 6.1%;
- A 46k sq ft retail warehouse in Cromer for £4.5m occupied by Homebase with an annual passing rent of £300k, reflecting a NIY of 6.3%;
- A 49k sq ft industrial asset in Knowsley, Liverpool for £4.325m. The asset comprises six units occupied by Engineering Solutions and Automations, Portakabin, Green Thumb, Central Electrical Armature and Med Imaging with an aggregate annual passing rent of £260k, reflecting a NIY of 5.6%;
- A 29k sq ft industrial unit in York for £3.0m occupied by Menzies Distribution with an annual passing rent of £186k, reflecting a NIY of 5.9%;
- A 30k sq ft industrial unit in Dundee for £1.9m occupied by Menzies Distribution with an annual passing rent of £118k, reflecting a NIY of 5.9%; and
- A 24k sq ft industrial unit in Nottingham for £1.875m occupied by Hickling & Squires printers with an annual passing rent of £130k, reflecting a NIY of 6.53%.

On 3 November 2021 the Company acquired 100% of the ordinary share capital of DRUM Income Plus REIT plc. Consideration for the acquisition of 20,247,040 new ordinary shares in the Company was calculated on an 'adjusted NAV-for-NAV basis', with each company's 30 June 2021 NAV being adjusted for respective acquisition costs with DRUM REIT's property portfolio valuation adjusted to the agreed purchase price of £43.5m (31 March 2022 valuation: £49.0m).

DRUM REIT's property portfolio at 31 March 2022 is summarised below:

- 10 regional properties comprising five offices, three retail parks, one shopping centre and one industrial estate in aggregate covering approximately 330k sq ft
- 79 tenants, the largest of which is Skills Development Scotland with annual rent of £0.4m (c.13% of DRUM REIT's rent roll)
- EPRA occupancy rate of 80.1%, providing some short-term asset management opportunities
- WAULT[28] of 3.3 years
- Contractual annual rent roll of £3.3m with an estimated rental value ("ERV") of £4.5m
- Portfolio valuation of £49.0m
- Reversionary yield[29] ("RY") of 8.6%

27 Passing rent divided by purchase price plus assumed purchasers' costs.

28 Weighted average unexpired lease term to first break or expiry.

29 ERV of portfolio divided by property valuation plus purchaser's costs.

DRUM REIT's portfolio represents an excellent fit with Custodian REIT's investment policy, targeting smaller regional property with a strong income focus. The purchase price reflected a sufficient discount to DRUM REIT's NAV to be accretive to existing Custodian REIT shareholders and to provide DRUM REIT shareholders with an increase in like for like share price, as well as delivering them a growing dividend from a much larger specialist in the smaller regional property sector with much improved liquidity.

Details of each property within DRUM REIT's portfolio are:

Location: **Gosforth, Newcastle** Sector: Retail (shopping centre) Tenants: Sainsbury's, multiple small local retailers RY: 8.1% Agreed purchase price: £8.975m	Location: **Central Glasgow** Sector: Office Tenant: Skills Development Scotland RY: 6.8% Agreed purchase price: £7.087m
Location: **Cheadle, Greater Manchester** Sector: Office Tenants: Agilent Technologies, Micron Europe RY: 9.3% Agreed purchase price: £5.036m	Location: **Edinburgh Business Park** Sector: Office Tenant: Multiple RY: 10.0% Agreed purchase price: £4.593m
Location: **Central Manchester** Sector: Office Tenants: Multiple RY: 12.4% Agreed purchase price: £4.503m	Location: **Southport** Sector: Retail warehouse Tenant: Multiple RY: 9.0% Agreed purchase price: £3.963m
Location: **Dunfermline** Sector: Retail warehouse Tenants: Multiple RY: 9.8% Agreed purchase price: £3.687m	Location: **Gloucester** Sector: Retail warehouse Tenant: Farmfoods RY: 8.3% Agreed purchase price: £2.396m
Location: **Aberdeen airport** Sector: Industrial Tenants: Multiple RY: 11.8% Agreed purchase: £1.66m	Location: **Gateshead** Sector: Office Tenants: Worldpay, Datawright RY: 17.0% Agreed purchase: £1.6m

Since the year end the Company has acquired:

- A 87k sq ft industrial facility in Grangemouth for £7.5m occupied by Thornbridge Sawmills with an annual passing rent of £388k, reflecting a NIY of 5.5%; and

- A 5k sq ft retail asset in Winchester for £3.65m occupied by Nationwide Building Society and Hobbs with an aggregate annual passing rent of £249k, reflecting a NIY of 6.4%.

Disposals

Owning the right properties at the right time is a key element of effective property portfolio management, which necessarily involves periodically selling properties to balance the property portfolio. Identifying opportunities to dispose of assets which the market overrates, have a special purchaser or that no longer fit within the Company's investment strategy is important and through the year sales proceeds of £54.4m were £9.6m ahead of valuation when the disposals were agreed (or £5.4m above final quarterly valuations prior to sale).

Taking advantage of the strength and depth of demand in the industrial/logistics sector and the increasing demand from owner occupiers, we were delighted to conclude some opportunistic sales during the year. We concluded the portfolio sale of seven industrial units which we felt did not meet our medium-term aspirations for rental growth or might require a level of capital expenditure that we would not recover in the valuation. As part of the sale, we agreed a delayed completion which enabled us to partially reinvest the expected proceeds in advance of completion, which has helped to reduce cash drag.

We also sold, to owner occupiers/special purchasers, a B&Q retail warehouse in Galashiels and two car show rooms, in Stockport and Stafford as detailed in the complete list for the year below:

- A portfolio of seven industrial properties located in Gateshead, Stockton-on-Tees, Warrington, Stone, Christchurch, Aberdeen and Bedford for £32.6m, £5.1m (19%) above the properties' valuation when terms of the sale were agreed and £2.9m above the last valuation. The properties were acquired either in the seed portfolio at IPO or within subsequent portfolio acquisitions and have an aggregate current passing rent of £2.0m reflecting a NIY on sale price of 5.9%;
- A 42k sq ft car showroom in Stockport for £9.0m, £1.4m (18%) ahead of valuation when terms of the sale were agreed and £0.4m above the last valuation;
- A 23k sq ft car showroom in Stafford for £4.9m, £1.15m (31%) ahead of valuation when terms of the sale were agreed and £0.9m above the last valuation;
- A 31k sq ft retail warehouse in Galashiels occupied by B&Q for £4.5m to a special purchaser, £1.8m (67%) ahead of valuation;
- High street retail units in Norwich, Nottingham, Kings Lynn and Cheltenham at valuation for an aggregate £2.9m; and
- A vacant children's day nursery in Basingstoke for £0.6m, £0.1m ahead of the last published valuation.

Since the year end the Company has sold a 25k sq ft car showroom occupied by Audi for £5.6m.

Outlook

The recovery in NAV during the year has been testament to the strength of the UK commercial property, allied to Custodian REIT's focus on smaller regional property and the close management of the portfolio to maximise occupancy, rent collection, cash flow and earnings.

The absolute focus on income is central to the management style and strategy of Custodian REIT. This approach is likely to be validated as yield compression slows and shareholder returns are reliant on earnings and dividends. Rent collection has normalised and Custodian REIT has latent rental growth which will justify current valuations.

While thematic investment has been the overwhelming focus of investment over the last 12 months, we believe the diversified strategy, if applied with discretion and clear aims, will be able to capitalise on market mispricing for recovering sectors and offer shareholders a balanced and attractive risk adjusted return.

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
16 June 2022

Asset management report

Asset management strategy

Our asset management strategy is summarised as follows:

1. Generating strong and predictable levels of cash flow by:

- **In-house management and rent collection** - maintaining direct relationships with tenants and identifying early any issues to they can promptly be addressed
- **Minimising vacancies** – proactively discussing renewals and regears and pre-empting exits to ensure marketing has commenced in advance of expiry

2. Enhancing asset value through:

- **Refurbishment** – ensuring tenants perform maintenance obligations within lease contracts and working with tenants to actively refurbish and improve assets
- **Improving energy performance** – encouraging tenants to reduce carbon emissions and usage and investing in assets to enhance ESG credentials and future-proof rents

3. Maximising opportunities of differing cycles in different sectors:

- **Adjusting allocations** – focusing on areas with the best medium-term rental growth prospects and mitigating risk by maintaining a diversified portfolio
- **Opportunistic sales and acquisitions** – taking advantage of off-market acquisition opportunities and only selling assets ahead of valuation or that no longer fit within the Company's investment strategy

Our continued focus on asset management during the year including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £13.4m valuation increase in the year.

Property portfolio summary

	2022	2021
Property portfolio value	**£665.2m**	£551.9m
Separate tenancies	**339**	265
EPRA occupancy rate	**89.8%**	91.6%
Assets	**160**	159
WAULT	**4.7 years**	5.0 years
NIY	**5.7%**	6.6%
Weighted average EPC rating	**C (61)**	C (63)

Key asset management initiatives completed during the year include:

- A 10 year lease with a fifth year tenant break option with DS Smith Packaging on a vacant industrial unit in Redditch with an annual rent of £401k, increasing valuation by £3.5m;
- A 10 year lease with a fifth year tenant break option with Harbour International Freight on an industrial unit in Manchester with an annual rent of £316k, increasing valuation by £2.1m;
- A 10 year lease with a fifth year tenant break option with PDS Group on a newly refurbished vacant industrial unit in West Bromwich with an annual rent of £395k, increasing valuation by £2.0m;
- Exchanging agreements for lease for 15 year leases with Tim Hortons on former Pizza Hut restaurants in Leicester and Watford, which are to be converted to drive-through restaurants following Pizza Hut's company voluntary arrangement ("CVA") with aggregate annual rent of £275k, increasing valuations by £1.9m;
- A five year lease with a third year break option to Green Retreats at a vacant industrial unit in Farnborough at an annual rent of £185k, increasing valuation by £0.9m;
- A 10 year lease renewal with a fifth year tenant break option with MTS Logistics on an industrial unit in Bardon with a stepped annual rent of £175k, rising to £205k, increasing valuation by £0.8m;
- A five year lease without break to Galliford Try on a vacant office suite in Leicester with an annual rent of £165k, increasing valuation by £0.5m;
- A 10 year lease renewal with a fifth year break option with BSS Group at an industrial unit in Bristol, increasing the annual passing rent from £250k to £255k with an open market rent review in year five, increasing valuation by £0.3m;
- A 15 year lease without break with Pure Gym on a vacant retail warehouse unit in Grantham with an annual rent of £90k, increasing valuation by £0.3m;
- A five year lease with a fourth year tenant break option with Carbide Properties (t/a Tungsten Properties) on a vacant office suite in Leicester with an annual rent of £78k, increasing valuation by £0.2m;
- A five year lease renewal with a third year tenant break option with The Works on a retail unit in Bury St Edmunds with an annual rent of £85k, increasing valuation by £0.2m;

- A 10 year lease of the vacant ground floor and a five year extension of the first floor with Dehns at the Company's recently acquired offices in Oxford with an aggregate annual passing rent of £271k, increasing valuation by £0.2m;
- A 10 year lease with a fifth year tenant break option with Livingstone Brown on a vacant office suite in Glasgow with an annual rent of £56k, increasing valuation by £0.2m;
- A five year lease renewal with a third year break option with DHL at an industrial unit in Aberdeen, maintaining passing rent at £208k and increasing valuation by £0.1m;
- A 10 year lease with third and fifth year tenant break options with Ramsdens Financial on a vacant retail unit in Glasgow with an annual rent of £55k, increasing valuation by £0.1m;
- A 10 year lease with fifth and seventh year tenant break options with Industrial Control Distributors on an industrial unit in Kettering with an annual rent of £25k, increasing valuation by £0.1m;
- A 15 year lease without break with Loungers on a retail unit in Shrewsbury, with an annual rent of £90k, with no impact on valuation;
- A 15 year lease renewal with a tenth year tenant break option with Smyths Toys on a retail warehouse unit in Gloucester with an annual rent of £130k, with no impact on valuation;
- A 10 year lease with a fifth year tenant break option with Diamonds of Chester Camelot on a vacant retail unit in Chester, with an annual rent of £35k, with no impact on valuation;
- A five year lease without break with Midon on an industrial unit in Knowsley, with an annual rent of £37k, with no impact on valuation;
- A five year lease with a third year tenant break option with Clogau on a vacant retail unit in Shrewsbury with an annual rent of £50k, with no impact on valuation;
- A six month lease extension with Saint Gobain on an industrial unit in Milton Keynes, with passing rent increasing from £265k to a 'premium rent' of £441k, with no impact on valuation;
- A short-term four month licence with Royal Mail on a vacant industrial unit in Redditch for a licence fee of £135k, with no impact on valuation;
- A 10 year lease renewal with a fifth year break option with MP Bio Science at an industrial unit in Hilton, increasing passing rent from £28k to £36k, resulting in an aggregate valuation uplift of £0.1m;
- A 10 year lease to SpaMedica at a vacant office building in Leicester with annual rent of £87k and open market rent review in year five, with no impact on valuation;
- A lease with Just for Pets on a vacant retail warehouse unit in Evesham for a term of 10 years with a break in year six, at an annual rent of £95k, with no impact on valuation;
- A five year lease renewal with Quantem Consulting at an office building in Birmingham, increasing the annual passing rent from £30k to £39k, with no impact on valuation;
- A 10 year lease extension with a break option in year five with Subway at a retail unit in Birmingham, maintaining the annual passing rent of £14k, with no impact on valuation;
- A five year lease renewal with a third year tenant break option with Superdrug on a retail unit in Weston-super-Mare with an annual rent of £60k, with no impact on valuation;

- A five year lease renewal without break with Holland and Barrett on a retail unit in Shrewsbury with an annual rent of £60k, with no impact on valuation;
- A three year lease with Saima Rani Salon on a vacant retail unit in Shrewsbury, with an annual rent of £15k, with no impact on valuation;
- A five year lease without break to Realty Law on a vacant office suite in Birmingham with an annual rent of £28k, with no impact on valuation; and
- A five year lease renewal with a third year break option to Done Brothers (t/a Betfred) at a retail unit in Cheltenham with an annual rent of £25k, with no impact on valuation.

These positive asset management outcomes have been partially offset by the impact of the Administrations of JTF Wholesale (£586k of annual rent) and Rapid Vehicle Repair (£71k of annual rent) which have resulted in an aggregate 1.8% decrease in the annual rent roll.

Letting activity is strong across most sectors. We have a strong pipeline of potential new tenants and since the year end have completed:

- A five year lease extension with CDS (t/a The Range) moving lease expiry out to 2036, which involved expanding the external demise by 2k sq ft to accommodate a larger garden centre with an additional £10k per annum of rent payable on the new space;
- A 10-year lease on a vacant industrial unit in Avonmouth to Nationwide Platforms with passing rent of £300k;
- A 10-year lease renewal with Heywood Williams (t/a Window Ware) with the agreed annual rent of £289k reflecting £8 per sq ft;
- A new 10-year lease with Bunzl on an industrial unit in Castleford at an increased rent of £164k, an £18k uplift from the previous passing rent;
- A 10-year lease renewal with B&Q in Banbury with a passing rent of £400k, reflecting £11.50 per sq ft; and
- An agreement for a 10-year lease with Costa Coffee on a high street unit in Colchester with annual rent of £65k.

Occupancy has been negatively impacted by the acquisition of DRUM REIT but we expect levels across the portfolio, including DRUM REIT assets, to continue to recover over the next 6-12 months as we complete more new lettings, unless there were to be further significant tenant failures.

Property portfolio risk

We have managed the property portfolio's income expiry profile through successful asset management activities with 57% of aggregate income expiring within five years from 31 March 2022 (2021: 53%). Short-term income at risk is a relatively low proportion of the property portfolio's income, with 38% expiring in the next three years (2021: 31%) and our experience suggests that even in the current uncertain climate, the majority of tenants do not exit at break or expiry.

Aggregate income expiry	31 March 2022	31 March 2021
0-1 years	15%	11%
1-3 years	23%	20%
3-5 years	19%	22%
5-10 years	31%	34%
10+ years	12%	13%
	100%	100%

Outlook

Looking forward, we maintain a positive outlook with many of the asset management initiatives currently under way expected to come to fruition over the next 6-12 months which should see new tenants secured, leases extended and new investment into existing assets improving their environmental credentials and realising their full potential.

Alex Nix
Assistant Investment Manager
for and on behalf of Custodian Capital Limited
Investment Manager
16 June 2022

ESG Committee report

The ESG Committee ("the Committee") was constituted on 1 April 2021. Its key responsibilities are:

- To set the Company's environmental KPIs, monitor performance against those KPIs and ensure the Investment Manager is managing its property portfolio in line with the ESG policy;
- To ensure the Company complies with its external reporting requirements on ESG matters including the Global Real Estate Sustainability Benchmark ("GRESB"), EPRA and Streamlined Energy and Carbon Report ("SECR") and adopts sector best practice where appropriate;
- To assess, at least annually, the fees and scope of engagement of the Company's environmental consultants; and
- To assess whether the Company is obtaining a suitable level of social outcomes for its tenants, other stakeholders and the communities in which it operates.

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. The Company's approach to ESG matters addresses the importance of these issues in the day-to-day running of the business, as detailed below.

ESG approach

Environmental - we want our properties to minimise their impact on the local and wider environment. The Investment Manager carefully considers the environmental performance of our properties, both before we acquire them, as well as during our period of ownership. Sites are visited on a regular basis by the Investment Manager and any obvious environmental issues are reported.

Social - Custodian REIT strives to manage and develop buildings which are safe, comfortable and high-quality spaces. As such, our aim is that the safety and well-being of occupants of our buildings is maximised.

Governance - high standards of corporate governance and disclosure are essential to ensuring the effective operation of the Company and instilling confidence amongst our stakeholders. We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

The Committee encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change. The Committee believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The Company's environmental policy commits the Company to:

- **Improving the energy performance of our buildings** - investing in carbon reducing technology, infrastructure and onsite renewables and ensuring redevelopments is completed to high environmental standards.
- **Reducing energy usage and emissions** - liaising closely with our tenants to gather and analyse data on the environmental performance of our properties to identify areas for improvement.
- **Achieving social outcomes and supporting local communities** - engaging constructively with tenants and local government to ensure we support the wider community through local economic and environmental plans and strategies and playing our part in providing the real estate fabric of the economy, giving employers safe places of business that promote tenant well-being.
- **Understanding environmental risks and opportunities** – allowing the Board to maintain appropriate governance structures to ensure the Investment Manager is appropriately mitigating risks and maximising opportunities
- **Reporting in line with best practice and complying with all requirements** - exposing the Company to public scrutiny and communicating our targets, activities and initiatives to stakeholders

Cladding

Custodian REIT's portfolio currently has no exposure to 'high risk' assets which are typically either high-rise buildings (characteristically those over 18m tall) which use cladding in their construction or those used for multiple residential occupation. Custodian REIT does have exposure properties where cladding material has been used in their construction, and where the composition of the material is unknown. During the year the Board instigated a detailed review of the Company's cladding risks and obligations involving the Investment Manager and the Company's solicitors. This review has resulted in the Investment Manager implementing a more extensive cladding policy, moving beyond the mandatory fire risk assessment requirements for properties where the composition of cladding material is unknown and actively core-drilling and replacing, where necessary, cladding not compliant with Loss Prevention Certification Board guidelines. This improved policy demonstrates that the Company's commitment to community safety significantly exceeds the minimum required in discharging its duty as a 'Responsible Person'[30]. A summary of the revised policy is set out below:

- 'High risk' buildings will not be acquired without a comprehensive rationale to decrease risk on acquisition, and require specific approval by the Board;
- All tenants provide the Investment Manager their Fire Risk Assessment ("FRA") which is reviewed to ensure;
    - It has been undertaken by a reputable fire risk assessor;
    - The tenant confirms in writing that recommendations and remediations are being actioned to mitigate the overall risk profile; and

30 As defined by the LPCB Loss Prevention Standards.

    - The local fire authority is contacted as required.
- Following a desktop review of each building within the portfolio, including approaches to local building control, to ascertain the composition of any cladding used in construction, the Investment Manager will arrange to undertake core drill samples of cladding where considered appropriate with priority given to buildings identified as ‘Code 1’ under LPCB guidelines which includes those with cladding recommended for immediate sampling or properties open to the public use.
- Where non LPCB compliant cladding is identified the Investment Manager will:
    - Notify building insurers, the Local Fire Authority and the tenants in occupation;
    - Insist that tenants undertake an updated FRA based on the cladding composition;
    - Review the FRA and ensure the tenant is complying with any recommended actions.
- Going forwards the Investment Manager will:
    - Hold quarterly fire risk review meetings to specifically review progress to date and implement any outstanding actions
    - Maintain a live cladding log, detailing the progress to date in implementing and maintaining compliance with the cladding policy;
    - Maintain an approved list of suitable Fire Risk Assessors which can be provided to tenants if they do not have any of their own fire consultants;
    - Engage with its legal advisors to seek to make lease clause obligations around Fire Risk more explicit and comprehensive in all new leases.

Environmental key performance indicators

During the prior financial year the Company set environmental targets measured by key performance indicators (“KPIs”) which provide a strategic way to assess its success towards achieving its environmental objectives and ensure the Investment Manager has embedded key ESG principles. These environmental KPIs cover our main areas of environmental impact including energy efficiency, greenhouse gas emissions, water, waste and tenant engagement.

These environmental KPIs also directly support climate risk mitigation and capture some ESG opportunities from the transition to a low-carbon economy. As we progress our climate-related risk identification and management, we aim to identify and implement further climate-related metrics that can more clearly define the impact of climate-related risks and opportunities on our business. ESG reporting frameworks, including GRESB, require businesses to disclose the KPIs which contribute towards benchmark scoring and potentially influence investor decisions.

The Company’s environmental KPIs in place during the year, and comments relating to our performance against each one, are set out below:

Boundary	KPI	Progress during the year
Whole portfolio	Reduce total portfolio Scope 1 and 2 emissions by 30% by 2025	The like-for-like data collected from tenants indicates a 44% reduction against the 2019 baseline. However, because this percentage is

		based on a relatively small sample population, the Board believes that although this indicates a positive performance by the Company's tenants, the population is insufficient to conclude that this objective has been met and in the year ending 31 March 2023 the Investment Manager will continue to make efforts to improve tenant response rates.
	All 'D' EPC ratings to be removed or improved by 2027, all 'E' EPC ratings to be removed or improved by 2025 and all 'F' and 'G' EPC ratings to be removed or improved by 31 March 2022	There are no longer any 'G' rated assets and the one remaining 'F' is being improved. During the year the Company has updated EPCs at 20 units across 15 properties covering 358k sq ft. The Company is currently reviewing and undertaking new assessments of any EPCs that are older than five years below a 'C' rating. A 'C' rating is expected to become the minimum standard under the Minimum Energy Efficiency Standard ("MEES") in 2027.
	Reduce Scope 1 and 2 energy consumption of the property portfolio by 15% against a 2019 baseline by 2025	The like-for-like data collected from tenants indicates a 54% reduction against the 2019 baseline, but subject to uncertainty due to a small sample population as explained above.
Landlord controlled	Switch all landlord-controlled sites to 100% renewable electricity by 2025	Currently at 94% and we expect to achieve 100% by 2023.
	Switch all landlord-controlled sites to green gas by 2025	12 properties have moved during the year and we remain on track to achieve this target by 2025.
	Install EV charging points across 100% of the Company's retail warehouse assets by 2025 and investigate onsite renewables on one asset by 2025	We have EV chargers operating at seven of our 11 retail warehouse sites with installation at the remainder currently underway.
	Zero waste to landfill from landlord-controlled waste by 2022	Zero waste to landfill from landlord-controlled waste was achieved during 2021. 2% of tenants' waste has been sent to landfill during the year due to a one-off capital project undertaken.
	Reduce landlord-controlled water consumption by 50% by 2025	Landlord water consumption has reduced by 18% since the prior year.
Tenant	Engage with occupiers during lease negotiations to incorporate sustainability clauses into new leases	Green clauses to include renewable electricity as standard within all new leases.
	Engage with tenants on quarterly basis on ESG issues	Tenant engagement is part of the Investment Manager's remit, which it has complied with during the year, as it collects all rent and directly manages each property in the portfolio.
Development	Achieve EPRA Gold Standard for the year ended 31 March 2021	Achieved.
	Report to TCFD by 2021	Selected elements of the TCFD reporting framework have been followed.

	Incorporate ESG factors into all investment due diligence undertaken	Investment Committee reports for any new property acquisition/refurbishment now include dedicated ESG rationale detailing improvements to be made alongside relevant expected capital expenditure.

To help the assessment of progress against KPIs a central data management system, hosted by the Company's environment consultants, has been established to provide a robust data collation and validation process. This data management system is being used to identify tenant engagement and asset optimisation opportunities and facilitates the communication of environmental performance data to various stakeholders.

Due to the success of the Investment Manager in meeting certain of the environmental targets during the year and the Board's ambition to strengthen the Company's environmental credentials, the Board has set the following revised targets to be reported against in the financial year ending 31 March 2023:

Area	Target	Change from previous targets
Physical building improvements (whole portfolio boundary)	Increase EV charging capacity to the following by 2025[31]: • 4,200 kW/h[32] across retail warehouse and other sector assets; and • 980 kW/h[33] across office and industrial assets	New
	Install onsite renewable electricity generation at 75% of redevelopments and major refurbishments	New
	Install smart meters across 25% of the portfolio by floor area	New
	All 'D' EPC ratings to be removed or improved by 2027 and all 'E' EPC ratings to be removed or improved by 2025	Retained
	All redevelopments to achieve Building Research Establishment Environmental Assessment Method ("BREEAM") Excellent rating	New
Landlord controlled usage (landlord controlled boundary)	For landlord controlled areas in the like for like portfolio, on a 2019 baseline, achieve: • Reduction in Scope 1 and 2 emissions of 30% by 2025 • Reduction in energy consumption of 15% by 2025 • Less than 5% waste to landfill by 2022 • Reduction in water consumption by 50% by 2025	Retained
	Switch all landlord-controlled sites to 100% renewable electricity by 2023	Retained but timetable accelerated
	Switch all landlord controlled sites to green gas by 2023.	Retained but timetable accelerated

31 Excluding assets with no car parking facilities.

32 Equating to 56 75kW 'Rapid' Chargers.

33 Equating to 140 7kW 'Fast' Chargers.

Risk management and reporting	Use TCFD recommendations and reporting framework to disclose our approach to climate related governance, strategy, risk management and opportunities	Amended to omit elements of TCFD as the Company is exempt from mandatory TCFD reporting
	Incorporate ESG factors into all investment due diligence undertaken	Retained
	Achieve an annual improvement in GRESB score between 2021 and 2025	New
	Continue to report in line with EPRA sustainability Best Practice Recommendations to achieve a 'gold' standard	Retained
Tenant engagement (tenant boundary)	For the non-landlord controlled like-for-like portfolio, on a 2019 baseline, achieve: • Reduction in Scope 1 and 2 emissions of 20% by 2025 • Reduction in energy consumption of 10% by 2025	Amended to separate landlord controlled and tenant controlled emissions, with lower targets for tenant performance where the Company does not have direct control
	Engage with tenants on a quarterly basis on ESG issues	Retained
	Engage with occupiers during lease negotiations to incorporate sustainability clauses into new leases	Retained
Social outcomes	Utilise 25% of vacant high street retail space for short-term not-for-profit lettings	New
	Install changing facilities and secure cycle parking at all appropriate assets	New
	Ensure properties comply with the Company's cladding policy within three months of acquisition	New
	Consider biodiversity and habitat strategy during all redevelopments	New

Investment decisions

Investment decisions will play a key role in achieving the Company's environmental KPIs. The Company undertakes an environmental assessment on vacated assets and during the acquisition due diligence process, rating assets or tenants against a number of ESG factors which form part of the Investment Committee decision making process. This process also helps the Investment Manager evaluate the potential environmental risks and opportunities associated with an asset and the impact on the achievement of the KPIs.

The Company's procurement policy for property services includes an assessment of new suppliers on their specification and use of sustainable and energy efficient materials, systems, equipment, onsite operating practices and performance evaluation/incentives put in place for direct external suppliers and/or service providers to employ sustainable processes in day-to-day work.

ESG policy

To achieve the Company's environmental objectives and targets, the Investment Manager seeks to achieve the following:

Environment

- Ensure operations are in place to commit to the minimisation of pollution and comply with all relevant environmental legislation;
- Gather and analyse data on our environmental performance across our business and portfolio; and
- Set long-term targets of environmental performance for our properties and monitor achievements as a commitment to continuous improvement.

Climate change adaptation & resilience

- Through our risk management process, identify climate-related risks, both physical and financial;
- Perform environmental risk assessments of our property portfolio on an on-going basis;
- Design mitigation and management strategies for climate and environmental risks and resilience to catastrophe/disaster; and
- Improve our reputation on environmental issues by incorporating resilience to climate-related transition and physical risk disclosures

Energy consumption & management

- Comply with all applicable, relevant energy-related legislation and other requirements and adopt best practice beyond the mandatory minimum where appropriate;
- Seek to reduce energy usage across properties we control;
- Monitor energy consumption across properties we control, and tenant consumption, where possible;
- Seek engagement with tenants to make meaningful reductions to their emissions and pollution;
- Procure renewable energy across properties we control;
- Review our energy objectives and targets on an annual basis;
- Promote energy efficiency and management to our tenants; and
- Where possible, build in green lease clauses[34] into our tenant leases.

34 A 'green lease' incorporates clauses where the owner and occupier undertake specific responsibilities/obligations regarding the sustainable operation/occupation of a property, for example: energy efficiency measures, waste reduction/management and water efficiency.

Building materials

- When we have the opportunity to develop new property or refurbish current assets, we commit to reviewing building materials which have a lower environmental impact and to select these materials, if appropriate; and
- Select greener building materials, in line with our vision to increase the sustainability certifications of our property portfolio.

Greenhouse gas ("GHG") emissions and management

- Quantify our Scope 1 and 2 (landlord controlled) emissions on an annual basis in line with our reporting requirements;
- Gather tenant energy consumption data, where possible, to quantify our leased assets emissions;
- Comply with and make representations to industry-standard ESG frameworks including both the EPRA Annual Sustainability Report and the GRESB;
- Continue to expand our carbon reporting in line with industry expectations and relevant legislation; and
- Reduce our greenhouse gas emissions through various energy reduction initiatives including virtual conferencing meetings to reduce travel.

Further information on our GHG emissions is set out within our SECR disclosures in the Directors' report.

Waste management

- Monitor waste levels across our properties and monitor tenant consumption, where possible;
- Implement landfill diversion waste streams such as recycling in our properties, where possible; and
- Promote waste management to our tenants.

Water consumption and management

- Monitor water consumption across our properties and monitor tenant consumption, where possible;
- Identify and implement water reduction technologies and opportunities within our property portfolio, where possible; and
- Promote water management to our tenants.

On-site carbon-reducing technology

- Install electric vehicle charging points across the portfolio where demand is sufficient;
- Install smart meters where tenants are amenable and in all vacant properties once re-let; and

- Investigate other carbon-reducing technology during significant refurbishments.

Biodiversity

- In the circumstances where we are developing new assets, the biodiversity of the development area will be considered and maintained to the highest level possible. We will promote sustainable practices by reducing the direct pressure on biodiversity and habitat by selecting more sustainable materials.

Asset level safety, health and well-being

We wish to manage and develop buildings which are safe, comfortable and high-quality spaces. As such, our aim is that the safety and well-being of the occupants of our buildings is maximised. We will implement a property portfolio approach to well-being which encourages engagement with tenants, promotes carbon reducing behaviours, ensures maximum building safety and optimises the comfort and quality of occupancy.

Stakeholder engagement

We engage regularly with the following internal and external stakeholders on environmental and social matters:

- Board – the Board meets at least quarterly and receives a report from the ESG Committee on performance and progress towards our objectives;
- Investment Manager – the Investment Manager has an ESG working group which meets fortnightly. Property team staff roles and responsibilities include ESG which is embedded across the work it carries out on behalf of the Company;
- Managing agents – we receive quarterly reports on our asset performance and engage directly on property portfolio optimisation;
- Tenants – we seek to engage with tenants on a quarterly basis both to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions;
- Local communities and charities- we work closely with local communities and charities in particular utilising un-let space for the benefit of the local community
- Suppliers and business partners – we operate a procurement policy which seeks to ensure sustainable products and business practices are adopted by our suppliers.

To monitor energy consumption across the property portfolio, as well as identify opportunities to make energy reductions, the Company has engaged with Carbon Intelligence to provide strategic advice on the process. This collaboration promotes the ethos of investing responsibly and has ensured statutory compliance with the Energy Savings Opportunity Scheme (ESOS) Regulations 2014 and The Companies

(Director's report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, and has facilitated inclusion of EPRA Sustainability Best Practice Recommendations in the Annual Report.

Case study – Redditch

The Company expects to receive planning permission in June 2022 to redevelop an existing 59,000 sq ft industrial building constructed in the 1980's into a brand new 60,000 sq ft industrial/distribution facility.

The new development will be built with exceptional ESG compliance and will be certified BREEAM 'Excellent' as well as having an Energy Performance rating 'A'.

In order to achieve this the specification will include: a carbon neutral base build, electric vehicle charging points, solar photovoltaic panels to the south facing roof elevations, LED lighting to warehouse and offices, cycle storage and shower facilities and bat roost to cater for local biodiversity.

The expected cost of the redevelopment is £5.8m and will generate an estimated rental value in the region of £500k pa. Given the occupation demand in this locality, we are confident the property will be pre-let prior to completion of the construction.

Case study – EV chargers

Our latest round of electric vehicle ("EV") charger installations has resulted in the Company partnering with Pod Point, one of the largest national charging networks, to install EV charging points at our remaining retail warehousing sites and commencing the rollout across appropriate industrial and office sites.

At each retail warehousing site Pod Point identifies the optimum number of chargers to:

- Minimise the 'payback' period on the upfront capital expenditure, targeting 4-6 years, which enhances short-term earnings and minimises obsolescence risk;
- Maximise overall investment return over a ten year investment horizon; and
- Maximise the total available charging capacity to help achieve the Company's ESG targets.

Installing EV chargers for public use also enhances properties' occupier appeal by increasing both customer footfall and dwell time.

Office and industrial tenants now expect EV charging as a feature on-site when looking for properties based on their requirements for their EV/hybrid fleet or staff use. Pod Point provides advice on the required load management system, groundworks, and infrastructure to suit tenants' requirements which are typically willing to pay a rental premium which allows the Company to at least re-coup its capital expenditure whilst meeting our ESG targets and future-proofing the asset.

We currently have 14 properties in the pipeline for installation with a total of 14 rapid (75kW) chargers at retail warehousing sites and a further 23 fast (7kW) chargers at office and industrial locations.

With many towns in the UK introducing clean air zones where a congestion fee is charged for driving through certain areas and the Government banning production of all new petrol or diesel vehicles from 2030, we expect to receive further demand and income for these chargers in the coming years.

Case study – charitable lettings

During the year the Company has allowed the following charitable lettings at some of its vacant retail space, rent free, which has saved the Company vacant rates and helped the communities in which it operates:

Location	Rent (rateable value) £000	Annual rates £000	Previous tenant	Charitable use
Grafton Gate, Milton Keynes	325	166	Staples	Willen Hospice - clearance outlet
Eastern Avenue, Gloucester	186	95	Staples	Furniture Recycling Project - storage
Trinity Square, Colchester	114	58	Laura Ashley	We are the Minories - art gallery and creative community space
Long Wyre Street, Colchester	75	38	Poundland	One Colchester - community hub

EPC ratings

During the year the Company has updated EPCs at 20 units across 15 properties covering 358k sq ft for properties where existing EPCs had expired or where works had been completed. For updated EPCs, there was an aggregate decrease in rating of 34 ‘energy performance asset rating points[35]

The Investment Manager is currently reviewing and undertaking new assessments of any EPCs that are older than five years and below a ‘C’ rating. A ‘C’ rating is expected to become the minimum standard under the Minimum Energy Efficiency Standard (“MEES”) in 2027.

The Company has the following ESG initiatives planned in the coming financial year:

- The tenant at a 100k sq ft industrial unit in Winsford is vacating in June 2022 and an extensive refurbishment is expected to be undertaken including installing solar panels to the roof, LED lighting throughout, air source heats pumps to heat the office space and EV charging. These works are expected to increase the EPC of this site from a ‘C’ to a ‘B’.
- During the year we purchased a 19k sq ft of office on Fountain Street in Manchester with the intention of undertaking a comprehensive refurbishment of the site which will include installing solar panels, LED lighting, bike racks, shower facilities with lockers and EV charging. Recycled furniture will also be incorporated into the cat B fitout and roof terrace with a consequential improvement on EPC rating.

The Company’s weighted average EPC score by rating is shown below:

EPC rating	2022	2021
A	3%	1%
B	21%	15%
C	49%	43%
D	20%	30%
E	7%	11%
F	-	1%

The majority ‘E’ rated assets are within the office sector, including a number of assets from the DRUM REIT acquisition, and appropriate investment is planned to make the necessary improvements in these assets.

Climate-related risks and opportunities

35 One EPC letter represents 25 energy performance asset rating points.

Climate change poses a number of physical risks to our property portfolio, for example those caused by the increased frequency and severity of extreme weather events. The Committee also recognises there are a number of transition-related risks, including economic, technology or regulatory challenges related to moving to a greener economy which it needs to consider. But climate change also provides opportunities to invest in alternative asset classes or to provide tenants with additional services.

Governance

The Board is ultimately responsible to stakeholders for the Company's activities and for oversight of our climate-related risks and opportunities. Specifically, the ESG Committee is the Board-level governance body responsible for reviewing our identified climate-related risks alongside our ESG strategy.

The Investment Manager maintains the Company's risk management framework and risk register, which means our ESG objectives are embedded into the way the Company conducts and manages the business and the property portfolio day to day.

Risk management

During the year the Committee has revisited its climate-related risks and opportunities to determine continued relevancy and impact on the Company. With the external consultant, the Committee assessed the completeness and effectiveness of current controls and processes in place to mitigate and manage risks and opportunities. The Committee deemed all mitigation controls in place to be effective however a number of continuous improvement areas were determined which are highlighted in the table below as next steps which will be addressed and actioned via the ESG Committee. The Company's ESG targets also support continuous monitoring of progress against the ESG strategy, capturing of opportunities and the mitigation of climate risks. These targets are reported against on a quarterly basis to the Committee by the Investment Manager and the Company's environmental consultants.

Climate-related risk/opportunity	What this means for Custodian REIT	Management and mitigation of risk	Next steps
Physical risks			
Asset damage from storms and flooding and associated changing insurance products, pricing and availability *Long-term*	• Extreme weather events causing damage to infrastructure or assets, making assets unusable by tenants, making insurance cover harder or more expensive for tenants to arrange and impacting future lettability through lower occupational demand • Historical impact of floods or increasing flood risk impacting the long term attractiveness of properties due to tenants avoiding rentals with flood risk	• Annual property inspections enabling the Investment Manager to identify any damage or areas of improvements to ensure increased property resilience against potential storms • Building maintenance (where in the Company's control) ensures properties are maintained to prevent increased levels of potential damage from storms and floods • Buildings insurance coverage minimises the financial impact of the damage caused by storms • Environmental reports are carried out for all acquisitions including flood risk assessment, albeit flood risk is measured on likelihood of river/sea/surface water flooding based on current scenarios/historical data rather than future climate change	• Begin to establish which assets are likely to be most at risk of potential extreme weather damage • Update flood risk for existing assets and understand how this may change in the future • With identified assets at risk, develop a management plan to build property resilience such as through fitout, asset upgrades or plan to divest, as appropriate • Ensure backup power is available in all building types where this is Custodian's responsibility • Review maintenance and fitout guidelines to include guidance on upgrades to storms such as securing of external equipment, roof specifications etc. • Review environmental reports procured at acquisition to determine whether future climate projection of flood risk can be included

Global temperature increases reducing the appeal of less energy-efficient assets *Long-term*	Certain assets will be more significantly impacted by rising temperatures, such as glass offices, requiring more energy for cooling and being less attractive to tenants	The Company's tenant engagement programme provides Custodian with up to date insights into changing tenant preferences, current challenges or feedback on building performance and provides an opportunity for the Investment Manager to further understand solutions to continue to meet tenants' preferences over time	• Monitor any tenant concerns around temperature through tenant engagement programme • Continue ongoing monitoring of energy consumption, particularly of glass properties, to determine whether the risk trend is accelerating and consider the need for upgrade plans such as facades, insultation etc. to reduce the property exposure to external temperature rises
Insufficient electricity supply to maintain tenant operations due to inadequate infrastructure *Medium – long-term*	Due to rising demand for energy such as from cooling requirements and EV chargers, current infrastructure might be unable to meet the energy demand	Upgrading power supplies where availability permits	Ensure power upgrades are utilising renewable energy sources, where contracts are under Custodian's control, in line with Custodian's emissions and energy targets

Transition risks			
Reduced attractiveness of the portfolio due to changing tenant preferences *Short – medium-term*	Changing tenant preferences to occupy less energy and carbon intensive buildings as well as requirements under MEES	• Capital expenditure considered necessary to maintain each asset within the portfolio to a suitable standard to secure new lettings at expected rental levels is forecast and factored into cashflow projections to ensure resources are available. • EPCs are maintained for the whole portfolio, with higher scoring assets under review to ensure improvements are carried out as soon as practical as well as monitoring the renewal dates and tracking score improvements. This control provides Custodian oversight and transparency of the assets improvement over time and provides the basis of an improvement plan with key assets to target and directly relates to one of our ESG KPIs • Asset due diligence is performed at acquisition stage for all new assets. The Investment Manager considers the long term suitability of the asset including ESG requirements against our ESG strategy and calculates the forecast investment to upgrade the asset over its life in line with compliance and tenant requirements • Custodian's tenant engagement programme provides live insights into the changing tenant preferences to stay abreast of changing trends to maintain lettability of portfolio and levels of occupation	• Improve acquisition due diligence processes to more accurately assess forecast investment to upgrade the asset over its life in line with compliance and tenant requirements • Improve coverage of the tenant engagement programme and broaden its remit to better capture tenants' concerns and sustainability plans

Investor divestment or activism due to changing ESG expectations *Short-term*	Increased stakeholder scrutiny over Custodian REIT's ESG ambitions and climate action and awareness of the impact of the built environment, including carbon emissions from refurbishment and construction, leading to reduced confidence, shareholder activism or divestment.	• External environmental consultants are engaged to advise on the Company's ESG initiatives and compare to requirements, best practice and peer-group performance. • Shareholder expectations are established by the Company's brokers and distribution agents and directly during meetings with investors. Significant changes in expectations or potential activism would be communicated.	• Continue to engage proactively with investors and the Company's wider stakeholder group on ESG matters • Continued Director training to build knowledge around Net Zero and climate issues to ensure ongoing effective governance and guidance • Consider future pricing of GHG emissions and emissions offsets and future enhanced emissions reporting obligations. Climate change could affect the input costs to produce traditional development related materials or building services. Utilising more innovative low carbon materials could also to mitigate some of the potential this risk might impose.
Unsuccessful investment in new technology *Medium-term*	If technology that has been invested in is not properly researched, developed or implemented, or becomes obsolete or no longer industry best practise, it may not bring the return that was forecast	All investments are scrutinised by the Investment Manager's Investment Committee. Investment Committee reports include a dedicated ESG rationale. Carbon reducing technology is a key part of the carbon-reduction strategy but is not invested in speculatively and only established products are considered.	

Opportunities			
Exposure to new asset classes for potential investment *Short – medium-term*	Investment opportunities through exposure to new asset classes	All investments are scrutinised by the Investment Manager's Investment Committee	• Continue to encourage investment in the Investment Manager's staff development for them to remain abreast of low-carbon building solutions and other competitive offerings through industry bodies, associations and memberships • At Board Strategy days, include a more prominent segment focused on ESG and future strategy involving ESG Committee recommendations and the Company's environmental consultants, including how the Company might expand low-carbon services and review new investment classes
Shifting tenant preferences may create new demand for new or existing products/ services *Short – medium-term*	The effects of climate change on tenant preferences may bring the opportunity to diversify business activities such as low-carbon alternative assets or development or expansion of low emissions services	• ESG Credentials are currently part of the marketing/prospectus of an asset - which ensures tenants are aware of Custodian REIT's ESG credentials to attract ESG conscious tenants • Tenant engagement programme - provides insights into the changing tenant preferences	
Increased demand for shares due to ESG credentials *Short-term*	Increased demand for shares from investors preferring to specifically invest in companies with strong ESG credentials	• Establishment of an ESG Committee of the Board and publication of revised, stretching ESG targets • Annual external reporting on progress against ESG targets • Investor feedback is captured regularly	Continue to improve communication with stakeholders regarding ESG initiatives through quarterly stock market reporting, Annual and Interim Reports and shareholder meetings and webinars

To account for the long-term nature of climate change three time horizons were used within the assessment:

- Short-term (0-3 years);
- Medium-term (3-12 years); and
- Long-term (12-20 years).

This period differs from the longer-term viability assessment of three years, as the outputs of our climate-related materiality assessment will be reviewed and built upon over time in order to effectively embed identified risks into our risk management framework.

Net zero[36] carbon pathway

Starting the journey towards net zero carbon is a crucial next step in our ESG strategy and making this journey fit with stakeholder goals and the Company's property strategy is one of the key challenges facing the Company and the real estate sector. Developing a net zero carbon pathway, and choosing the right level of consultancy to support the Investment Manager in achieving this, is squarely on the Committee's agenda for the forthcoming year.

Outlook

The Company will work towards achieving its refined ESG targets over the course of the next financial year, improving our understanding of the specific impacts of climate change on the Company, seeking to influence tenant behaviour to improve environmental outcomes and assessing our strategy towards creating a Net Zero pathway.

Approval

This report was approved by the Committee and signed on its behalf by:

Hazel Adam
Chair of the ESG Committee
16 June 2022

36 As defined by the Committee on Climate Change.

Financial review

The Company has enjoyed its strongest year of total return as the market continued its recovery from the impact of the COVID-19 pandemic, with a profit before tax of £122.3m (2021: £3.7m) and EPRA earnings per share of 5.9p (2021: 5.6p). The Company's rent collection level has stabilised to pre-pandemic levels which has supported the Board increasing dividends per share declared for the year to 5.25p (2021: 5.0p), 110% covered by EPRA earnings.

A summary of the Company's financial performance for the year is shown below:

Financial summary	**Year ended 31 Mar 2022 £000**	Year ended 31 Mar 2021 £000
Revenue	**39,891**	39,578
Expenses and net finance costs	**(14,639)**	(15,904)
EPRA profits	**25,252**	23,674
Net profit/(loss) on investment property	**97,073**	(19,925)
Profit before tax	**122,325**	3,749
EPRA EPS (p)	**5.9**	5.6
Dividend cover	**110.3%**	112.7%
OCR excluding direct property costs	**1.20%**	1.12%
Borrowings		
Net gearing	**19.1%**	24.9%
Weighted average debt maturity	**5.7 years**	7.4 years
Weighted average cost of agreed debt	**3.0%**	3.0%

The Company's rent roll has increased by 4.7% from £38,692k at 31 March 2021 to £40,493k at 31 March 2022, which resulted in IFRS revenue increasing from £39,578k to £39,891k.

This increase in contractual rent was due primarily to net property acquisitions, but importantly also from aggregate rental growth across the portfolio and the positive impact of asset management activity in increasing like-for-like occupancy through net new lettings, which demonstrate the robust nature of the Company's diverse property portfolio.

EPRA earnings per share increased to 5.9p (2021: 5.6p) due primarily to the stabilisation of rent collection rates, with a £0.3m decrease in the doubtful debt provision during the year comparing to a £2.7m increase in the prior financial year; partially offset by the timing of acquisitions and disposals and increased professional fees from more regear and new letting activity.

Dividends

The Board acknowledges the importance of income for shareholders and during the year its objective was to pay dividends on a sustainable basis at a rate fully covered by net rental receipts which does not inhibit the flexibility of the Company's investment strategy.

The Company paid dividends totalling 5.625p per share during the year (£24.2m) comprising fourth and fifth interim dividends relating to the year ended 31 March 2021 of 1.25p and 0.5p per share respectively, and quarterly interim dividends of 1.25p, 1.25p and 1.375p per share relating to the year ended 31 March 2022.

The Company paid a fourth quarterly interim dividend of 1.375p per share for the quarter ended 31 March 2022 on 31 May 2022 totalling £6.1m. Dividends relating to the year ended 31 March 2022 of 5.25p (2021: 5.0p) were 110% covered by net recurring income of £25.3m, as calculated in Note 21.

Cost control

The Company's tiered management fee structure, detailed in Note 18, meant that marginal investment management and administration fees decreased during the year as NAV increased to above the £500m hurdle. However, the Company has continued to invest in its environmental and governance structures and has also increased its marketing budget which has resulted in the OCR (excluding direct property costs) increasing from 1.12% for the year to 1.20%. Although governance related expenditure is likely to continue to increase we believe the economies of scale provided by the Company's relatively fixed cost base and fee structure will mean that further growth will allow ongoing charges to be kept proportionately low.

Key performance indicators

The Board reviews the Company's quarterly performance against a number of key financial and non-financial measures:

- EPS and EPRA EPS – reflect the Company's ability to generate recurring earnings from the property portfolio which underpin dividends;
- Dividends per share and dividend cover - to provide an attractive, sustainable level of income to shareholders, fully covered from net rental income. The Board reviews target dividends in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- NAV per share total return – reflects both the NAV growth of the Company and dividends payable to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV per share total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds;
- NAV per share, share price and market capitalisation – reflect various measures of shareholder value at a point in time;
- Share price total return – reflects the movement in share price and dividends payable to shareholders;
- Target dividend per share – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- Net gearing – measures the Company's borrowings as a proportion of its investment property, balancing the additional returns available from utilising debt with the need to effectively manage risk;
- OCR – measures the annual running costs of the Company and indicates the Board's ability to operate the Company efficiently, keeping costs low to maximise earnings from which to pay fully covered dividends; and
- EPRA vacancy rate – the Board reviews the level of property voids within the Company's property portfolio on a quarterly basis and compares this to its peer group average.
- Weighted average EPC rating – measures the overall environmental performance of the Company's property portfolio

The Board considers the key performance measures over various time periods and against similar funds. A record of these measures is disclosed in the Financial highlights and performance summary, the Chairman's statement and the Investment Manager's report.

EPRA performance measures

EPRA Best Practice Recommendations have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures.

	2022	2021
EPRA EPS (p)	**5.9**	5.6

EPRA Net Tangible Assets ("NTA") per share (p)	**123.1**	97.6
EPRA NIY	**5.0%**	6.0%
EPRA 'topped up' NIY	**5.5%**	6.4%
EPRA vacancy rate	**10.2%**	8.4%
EPRA cost ratio (including direct vacancy costs)	**22.9%**	26.1%
EPRA cost ratio (excluding direct vacancy costs)	**19.0%**	23.9%
EPRA capital expenditure (£m)	**69.0**	14.5
EPRA like-for-like rental growth (£m)	**35.3**	38.3

- EPRA EPS – a key measure of the Company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings
- EPRA NAV per share metrics – make adjustments to the NAV per the IFRS financial statements to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. EPRA Net Tangible Assets - assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax
- EPRA NIY and 'topped up' NIY – alternative measures of property portfolio valuation based on cash passing rents at the reporting date and once lease incentive periods have expired, net of ongoing property costs
- EPRA cost ratios – alternative measures of ongoing charges based on expenses, excluding operating expenses of rental property recharged to tenants, but including increases in the doubtful debt provision, compared to gross rental income
- EPRA capital expenditure - capital expenditure incurred on the Company's property portfolio during the year
- EPRA like-for-like rental growth - a measure of rental growth of the property portfolio by sector, excluding acquisitions and disposals
- EPRA Sustainability Best Practice Recommendations – environmental performance measures focusing on emissions and resource consumption which create transparency to potential investors by enabling a comparison against peers and set a direction towards improving the integration of ESG into the management of the Company's property portfolio.

Debt financing

The Company operates with a conservative level of net gearing, with target borrowings over the medium-term of 25% of the aggregate market value of all properties at the time of drawdown. The Company's net gearing decreased from 24.9% LTV last year to 19.1% at the year end primarily due to £94.0m of valuation increases.

Since the year end the Company has arranged a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with RBS, acquired via the DRUM REIT acquisition. Following the refinancing the Company had the following facilities available:

- A £50m revolving credit facility ("RCF") with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above SONIA[37], determined by reference to the prevailing LTV ratio of a discrete security pool of assets, and expiring on 17 September 2024;
- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025, with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £75m term loan facility with Aviva comprising:
  - A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%;
  - A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%; and
  - A £25m tranche repayable on 3 November 2032 with fixed annual interest of 4.10%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and the following covenants:

- The maximum LTV of each discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

At the year end the Company had £207.2m (31% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on the individual loans. During the year the Company charged unencumbered properties valued at £30.3m to certain facilities as substitutions for charged properties sold during the year. Since the year end £53.5m of unencumbered property has been charged to the new £25m tranche of debt with Aviva with charges over £49.0m of property secured on the £25m RCF with RBS released on that facility's subsequent cancellation.

The weighted average cost ("WAC") of the Company's agreed debt facilities at 31 March 2022 was 3.0% (2021: 3.0%), with a weighted average maturity ("WAM") of 5.2 years (2021: 7.4 years). At 31 March 2022 the Company had £nil drawn under its Lloyds RCF and £22.8m drawn under its RBS RCF, meaning 84% (2021: 82%) of the Company's drawn debt facilities, and 61% (2021: 70%) of its agreed debt facilities, were at fixed rates.

On completion of the new tranche of Aviva debt and repayment and cancellation of the £25m RCF with RBS, the Company's WAC of its agreed debt facilities increases to 3.2% with 74% at a fixed rate of interest and a WAM of 6.3 years.

[37] The sterling overnight index average ("SONIA") which has replaced LIBOR as the UK's main interest rate benchmark.

This high proportion of fixed rate debt significantly mitigates long-term interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the property portfolio.

LIBOR, the London Inter Bank Offer Rate interest rate benchmark used for setting the interest rate charged on the Company's RCF facilities was discontinued during the year and has been replaced by SONIA. The transition has not had a material impact on the interest rates on the RCFs.

Outlook

The Company's business model has remained resilient during the year and we have further mitigated against interest rate rises by refinancing £25m of variable rate debt at a fixed rate. We have a scalable cost structure and flexible capital structure to be on the front foot when opportunities present themselves to raise new equity and exploit acquisition opportunities.

Ed Moore
Finance Director
for and on behalf of Custodian Capital Limited
Investment Manager
16 June 2022

Property portfolio

Industrial

Tenant	Location	% portfolio income
Menzies Distribution	Various	**3.4%**
H&M	Winsford	**1.4%**
Teleperformance	Ashby	**1.2%**
ATL Transport	Burton	**1.1%**
Restore	Salford	**1.0%**
Saint Gobain Building Distribution	Milton Keynes	**1.0%**
DS Smith Packaging	Redditch	**0.9%**
Daher Aerospace	Hilton	**0.9%**
Silgan Closures	Doncaster	**0.9%**
PDS Group Holdings	West Bromwich	**0.9%**
Next	Eurocentral	**0.8%**
Life Technologies	Warrington	**0.8%**
Massmould	Milton Keynes	**0.8%**
ICT Express	Tamworth	**0.8%**
Royal Mail	Coventry/Kilmarnock	**0.8%**
Yesss (B) Electrical	Normanton	**0.7%**
Turpin Distribution	Biggleswade	**0.7%**
Harbour International Freight	Manchester	**0.7%**
HellermannTyton	Cannock	**0.7%**
Yodel	Bellshill	**0.7%**
Multi-Colour Daventry England	Daventry	**0.6%**
Zentia Profiles	Gateshead - Team Valley	**0.6%**
Sherwin Williams	Plymouth	**0.6%**
DX Network Service	Nuneaton	**0.6%**
BSS Group	Bristol	**0.5%**
Heywood Williams Components	Bedford	**0.5%**
Ichor Systems	Hamilton	**0.5%**
Morrison Utility Services	Stevenage	**0.5%**
Brenntag UK	Cambuslang	**0.5%**
A Share & Sons (t/a SCS)	Livingston	**0.5%**
Sytner	Oldbury	**0.5%**
MTS Logistics	Coalville	**0.4%**
Procurri Europe	Warrington	**0.4%**
Semcon	Warwick	**0.4%**
Green Retreats	Farnborough	**0.4%**
VP Packaging	Kettering	**0.4%**
West Midlands Ambulance Service NHS Trust	Erdington	**0.4%**
Warburton	Langley Mill	**0.4%**
Northern Commercials	Irlam	**0.4%**
Synergy Health	Sheffield Parkway	**0.3%**
Bunzl	Castleford	**0.3%**
Powder Systems	Liverpool, Speke	**0.3%**
Tricel Composites	Leeds	**0.3%**
Arkote	Sheffield	**0.3%**
Hickling and Squires	Nottingham	**0.3%**

Sealed Air	Kettering	**0.3%**
North Warwickshire Borough Council	Atherstone	**0.3%**
DHL International	Liverpool, Speke	**0.3%**
PHS Group	Huntingdon	**0.2%**
Synertec	Warrington	**0.2%**
DHL Global Forwarding	Glasgow Airport	**0.2%**
Acorn Web Offset	Normanton	**0.2%**
ITM Power	Sheffield	**0.2%**
Rapid Vehicle Repairs	Kettering	**0.2%**
Med Imaging	Knowsley	**0.2%**
MP Bio Science	Hilton	**0.1%**
Central Electrical Armature Winding	Knowsley	**0.1%**
Equinox Aromas	Kettering	**0.1%**
Engineering Solutions & Automation Services	Knowsley	**0.1%**
Portakabin	Knowsley	**0.1%**
Jangala Softplay	Hilton	**0.1%**
Midon	Knowsley	**0.1%**
Precision Pumping and Metering	Aberdeen	**0.1%**
RTV - Worldnet Shipping	Aberdeen	**0.1%**
Shakespeare Pharma	Hilton	**0.1%**
Grampian Geotechnical (Scotland)	Aberdeen	**0.1%**
Razor Oiltools	Aberdeen	**0.1%**
Industrial Control Distributors	Kettering	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**3.7%**
		38.5%

Retail Warehouse

B&M	Various	**2.7%**
B&Q	Banbury/Weymouth	**2.4%**
Wickes	Burton/Southport/Winnersh	**1.8%**
HHGL (t/a Homebase)	Cromer/Leighton Buzzard	**1.4%**
Matalan	Leicester	**1.1%**
Magnet	Gloucester/Leicester/Plymouth	**1.0%**
Halfords	Carlisle/Sheldon/Weymouth	**0.8%**
Oak FurnitureLand Group	Carlisle/Plymouth	**0.5%**
Poundstretcher*	Grantham/Southport	**0.5%**
A Share & Sons (t/a SCS)	Plymouth	**0.5%**
M&S	Evesham	**0.5%**
CDS (t/a The Range)	Burton	**0.5%**
Sainsbury’s	Torpoint	**0.5%**
Dreams*	Sheldon/Southport	**0.5%**
Pets at Home	Sheldon/Winnersh	**0.4%**
Boots	Evesham	**0.4%**
Argos	Evesham	**0.4%**
Next	Evesham	**0.4%**
TJ Morris (t/a Homebargains)	Portishead	**0.3%**
Smyths Toys	Gloucester	**0.3%**
Iceland Foods	Carlisle	**0.3%**
Sofology	Southport	**0.2%**
Poundland	Carlisle	**0.2%**
Just For Pets	Evesham	**0.2%**
Pure Gym	Grantham	**0.2%**
SportsDirect.com	Weymouth	**0.2%**
Farmfoods	Gloucester	**0.2%**
Majestic Wine	Portishead	**0.1%**
Parts Alliance Group	Southport	**0.1%**
InstaVolt	Various	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**2.3%**
		21.1%

*Tenants in occupation paying £nil rent through CVAs where ERV has been used to calculate % portfolio income.

Office

First Title (t/a Enact)	Leeds	**1.4%**
Regus (Maidstone West Malling)	West Malling	**1.4%**
The Skills Development Scotland Co	Glasgow	**0.9%**
National Grid	Castle Donnington	**0.7%**
Wienerberger	Cheadle	**0.7%**
Agilent Technologies	Cheadle	**0.7%**
Home Office	Sheffield	**0.6%**
Dehns	Oxford	**0.6%**
Edwards Geldards	Derby	**0.6%**
Countryside Properties	Leicester	**0.4%**
Lyons Davidson	Solihull	**0.4%**
Nucana	Edinburgh	**0.4%**
Galliford Try Construction	Leicester	**0.4%**
Regus (Leicester Grove Park)	Leicester	**0.3%**
Worldpay	Gateshead	**0.3%**
Systra	Birmingham	**0.3%**
Oxentia	Oxford	**0.3%**
Cognizant Technology Solutions	Glasgow	**0.2%**
Spa Medica	Leicester	**0.2%**
Health & Safety Executive	Sheffield	**0.2%**
NatWest	Oxford	**0.2%**
Carbide Properties	Leicester	**0.2%**
Charles Stanley	Oxford	**0.2%**
Erskine Murray	Leicester	**0.2%**
Meridian Healthcomms	Manchester Fountain Street	**0.2%**
Nucana Biomed	Edinburgh	**0.2%**
Datawright Computer Services	Gateshead	**0.2%**
Tony Gee and Partners	Manchester Arthur House	**0.1%**
IJ Tours	Manchester Arthur House	**0.1%**
Venditan	Manchester Fountain Street	**0.1%**
Livingstone Brown	Glasgow	**0.1%**
Copeland Wedge Associates	Birmingham	**0.1%**
KWB Property Management	Birmingham	**0.1%**
Fourthline	Manchester Fountain Street	**0.1%**
Bell Cornwall Associates	Birmingham	**0.1%**
UK Speeder Consulting	Manchester Arthur House	**0.1%**
Smith Institute	Oxford	**0.1%**
Quantem Consulting	Birmingham	**0.1%**
Coulters Legal LLP	Edinburgh	**0.1%**
GoFor Finance	Edinburgh	**0.1%**
Bradley & Cuthbertson LLP	Birmingham	**0.1%**
Safe Deposits	Glasgow	**0.1%**
Reality Law	Birmingham	**0.1%**
Other smaller tenants		**0.3%**
VACANT		**2.3%**
		16.6%

Other

VW Group	Derby/Shrewsbury	**1.2%**
TH UK & Ireland (t/a Tim Hortons)	Leicester/Perth/Watford	**0.8%**
MKM Buildings Supplies	Castleford/Lincoln	**0.7%**
Nuffield Health	Stoke	**0.7%**
Total Fitness	Lincoln	**0.6%**
Co-Operative	Gillingham	**0.6%**
Bannatyne Fitness	Perth	**0.6%**
Pendragon Property Holdings	York	**0.5%**
Liverpool Community Health NHS Trust	Liverpool	**0.4%**
Parkwood Health & Fitness	Salisbury	**0.4%**
Listers Group	Loughborough	**0.4%**
Mecca Bingo	Crewe	**0.3%**
Chokdee	Bath	**0.3%**
TJ Vickers & Sons	Shrewsbury	**0.3%**
Stonegate Pub Co	High Wycombe	**0.3%**
Starbucks	Maypole	**0.3%**
Kbeverage (t/a Starbucks)	Nottingham	**0.3%**
Mecca Bingo (sublet to Odeon Cinemas)	Crewe	**0.2%**
The Gym Group	Carlisle	**0.2%**
AGO Hotels	Portishead	**0.2%**
Iguanas	Torquay	**0.2%**
Bistrot Pierre	Torquay	**0.2%**
Ask Italian Restaurant	Shrewsbury	**0.2%**
McDonalds	Plymouth	**0.2%**
JD Wetherspoons	Portishead	**0.2%**
Scotco Eastern (t/a KFC)	Perth	**0.2%**
Wedgmoor	Crewe	**0.2%**
Loungers	Torquay	**0.1%**
The Universal Church of the Kingdom of God	Stratford	**0.1%**
1 Oak (t/a Starbucks)	Burton	**0.1%**
Knutsford Day Nursery	Knutsford	**0.1%**
F1 Autocentres	Crewe	**0.1%**
Ashbourne Day Nurseries	Chesham	**0.1%**
Sam's Club (t/a House of the Rising Sun)	Shrewsbury	**0.1%**
Edmundson Electrical	Crewe	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**1.0%**
		12.6%

Retail

Superdrug	Southsea/Weston-super-Mare/Worcester	**1.1%**
Sainsbury’s	Gosforth	**0.9%**
Specsavers	Cardiff	**0.5%**
Sportswift	Cardiff/Gosforth/Portsmouth	**0.5%**

The Works	Bury St Edmunds/Portsmouth	**0.4%**
URBN UK	Southampton	**0.4%**
Reiss	Guildford	**0.4%**
Phase Eight	Edinburgh	**0.3%**
Poundland	Portsmouth	**0.3%**
Nationwide Building Society	Shrewsbury	**0.2%**
Portsmouth City Council	Southsea	**0.2%**
Foxtons	Stratford	**0.2%**
Wilko Retail	Taunton	**0.2%**
Loungers	Shrewsbury	**0.2%**
Signet Trading (t/a Ernest Jones)	Chester	**0.2%**
Savers Health & Beauty	Bury St Edmunds/Newcastle	**0.2%**
Tesco	Birmingham	**0.2%**
Boots	Gosforth	**0.2%**
Holland & Barrett	Shrewsbury	**0.2%**
Kruidvat Real Estate (t/a Savers)	Colchester	**0.1%**
Crepeaffaire	St Albans	**0.1%**
Lush	Colchester	**0.1%**
H Samuel	Colchester	**0.1%**
Der Touristik	Chester	**0.1%**
WH Smith	Gosforth	**0.1%**
Barrhead Travel	Dunfermline	**0.1%**
British Red Cross Society	Dunfermline	**0.1%**
Lloyds Bank	Gosforth	**0.1%**
Ramsdens Financials	Glasgow	**0.1%**
Clogau Gold	Shrewsbury	**0.1%**
Felldale Retail (t/a Lakeland)	Chester	**0.1%**
Your Phone Care	Portsmouth	**0.1%**
Ciel (Concessions) (t/a Chesca)	Chester	**0.1%**
Aslan Jewellery	Chester	**0.1%**
Virgin Money	Gosforth	**0.1%**
Greggs	Birmingham/Dunfermline	**0.1%**
Brook Taverner	Cirencester	**0.1%**
Leeds Building Society	Colchester	**0.1%**
Subway	Birmingham/Dunfermline	**0.1%**
Diamonds of Chester Camelot	Chester	**0.1%**
CHAS Trading	Dunfermline	**0.1%**
Lloyds Pharmacy	Dunfermline	**0.1%**
Indigo Sun Retail	Dunfermline	**0.1%**
Johnson Cleaners	Dunfermline	**0.1%**
Viva Italia	Dunfermline	**0.1%**
The Danish Wardrobe (t/a Noa Noa)	Cirencester	**0.1%**
Coral	Birmingham	**0.1%**
Costa	Gosforth	**0.1%**
Cancer Research UK	Gosforth	**0.1%**
RMS Estate Agents	Gosforth	**0.1%**
Other smaller tenants		**0.5%**
VACANT		**0.9%**
		11.3%

Principal risks and uncertainties

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces. At least annually, the Board undertakes a risk review, with the assistance of the Audit and Risk Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems. During this review, no significant failings or weaknesses were identified in respect of risk management, internal control and related financial and business reporting.

The Company holds a portfolio of high quality property let to institutional grade tenants and is primarily financed by fixed rate debt. It does not undertake speculative development.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results. The Directors have assessed the risks facing the Company, including risks that would threaten the business model, future performance, solvency or liquidity. The table below outlines the principal risks identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

<table>
<tr><th>Risk</th><th>Assessment</th><th>Mitigating factors</th></tr>
<tr><td>Loss of revenue
Tenant default due to a cessation or curtailment of trade
An increasing number of tenants exercising contractual breaks or not renewing at lease expiry
Enforced reduction in contractual rents through a CVA or legislative changes due to the COVID-19 pandemic
Property environmental performance insufficient to attract tenants
Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy
Expiries or breaks concentrated in a specific year
Unable to re-let void units
Low UK economic growth impacting the commercial property market</td><td>Likelihood: Moderate

Impact: High

Overall change in risk from last year: Decreased - reduced impact of the COVID-19 pandemic</td><td>Diverse property portfolio covering all key sectors and geographical areas
The Company has 339 individual tenancies with the largest tenant accounting for 3.8% of the rent roll
Investment policy limits the Company’s rent roll to no more than 10% from a single tenant and 50% from a single sector
Primarily institutional grade tenants
Focused on established business locations for investment
Active management of lease expiry profile considered in forming acquisition decisions
Building specifications typically not tailored to one user
Strong tenant relationships
Significant focus on asset-by-asset ESG performance and pro-actively investing in environmental performance to maintain or improve rental levels</td></tr>
<tr><td>Decreases in property portfolio valuation
Decreases in sector-specific ERVs
Loss of contractual revenue
Tenants exercising contractual breaks or not renewing at lease expiry
Market pricing affecting value
Change in demand for space
Property environmental performance insufficient to attract tenants
Properties concentrated in a specific geographical location or sector
Reduced property market sentiment and investor demand
Lack of transactional evidence</td><td>Likelihood: Moderate

Impact: Moderate

Overall change in risk from last year: Decreased – reduced impact of the COVID-19 pandemic and stabilisation of the retail sector valuations</td><td>Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other
Investment policy limits the Company’s property portfolio to no more than 50% in any specific sector or geographical region
Smaller lot-size business model limits exposure to individual asset values
High quality assets in good locations should remain popular with investors
Significant focus on asset-by-asset ESG performance and pro-actively investing in environmental performance to maintain or improve demand</td></tr>
</table>

Risk	Assessment	Mitigating factors
Financial		
• Reduced availability or increased cost of arranging or servicing debt • Breach of borrowing covenants • Significant increases in interest rates • Refinancing risk from acquiring £25m of debt due to expire in 2022	Likelihood: Moderate Impact: High Overall change in risk from last year: Increased due to upward pressure in interest rates	• The Company has three lenders • Target net gearing of 25% LTV on property portfolio • 84% of drawn debt facilities at the year end at a fixed rate of interest • Additional fixed-rate debt agree post year-end • Significant unencumbered properties available to cure any potential breaches of LTV covenants • Ongoing monitoring and management of the forecast liquidity and covenant position
Operational		
• Inadequate performance, controls or systems operated by the Investment Manager	Likelihood: Low Impact: High Overall change in risk from last year: No change	• Ongoing review of performance by independent Board of Directors • Outsourced internal audit function reporting directly to the Audit and Risk Committee • External depositary with responsibility for safeguarding assets and performing cash monitoring
Regulatory and legal		
• Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations • Non-compliance with the REIT regime[38] or changes to the Company's tax status	Likelihood: Moderate Impact: High Overall change in risk from last year: No change	• Strong compliance culture • External professional advisers are engaged to review and advise upon control environment, ensure regulatory compliance and advise on the impact of changes due to the COVID-19 pandemic • Business model and culture embraces FCA principles • REIT regime compliance is considered by the Board in assessing the Company's financial position and setting dividends and by the Investment Manager in making operational decisions

38 As defined by the Corporation Tax Act 2010.

Risk	Assessment	Mitigating factors
Business interruption		
• Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data • Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants	Likelihood: Moderate Impact: High Overall change in risk from last year: No change	• Investment Manager staff are all capable of working from home for an extended period • Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated • Fire protection and access/security procedures are in place at all of the Company's managed properties • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism • At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio
ESG		
• Failure to appropriately manage the environmental performance of the property portfolio, resulting in it not meeting the required standards of environmental legislation and making properties unlettable or unsellable • ESG policies and targets being insufficient to meet the required standards of stakeholders • Non-compliance with environmental reporting requirements	Likelihood: Moderate Impact: Moderate Overall change in risk from last year: Increased due to increasing best practice requirements	• The Company has engaged specialist environmental consultants to advise the Board on compliance with requirements and adopting best practice where possible • The Company has a published ESG which seeks to improve energy efficiency and reduce emissions • In April 2021 the Company constituted an ESG Committee to ensure compliance with environmental requirements, the ESG policy and environmental KPIs, detailed in the ESG Committee report • At a property level an environmental assessment is undertaken which influences decisions regarding acquisitions, refurbishments and asset management initiatives
Acquisitions		
• Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure)	Likelihood: Low Impact: Moderate Overall change in risk from last year: Increased due to the acquisition of DRUM REIT	• Comprehensive due diligence is undertaken in conjunction with professional advisers and the provision of insured warranties and indemnities are sought from vendors where appropriate • Acquired companies' trade and assets are hive-up into Custodian REIT plc and the acquired entities liquidated

Emerging risks

The following emerging risks have been identified:

- Inflation - the recovery in global demand following the COVID-19 pandemic and the ongoing war in Ukraine have contributed to global supply chain issues, inflation and the risk of agricultural shortages. These impact the Company in terms of the cost and availability of materials and labour in carrying out redevelopments, refurbishments and maintenance, their effect on increasing interest rates and indirectly through their impact on the UK economy in terms of growth and consumer spending and the consequential impact on occupational demand for real estate.

- COVID-19 - the COVID-19 pandemic impacted the Company in previous financial years and there remains a principal risk around potential new variants and the associated impact on the global economy.

The Board believes the Company is well placed to weather the longer-term impact of these risks because the Company has:

- A diverse portfolio by sector and location with an institutional grade tenant base;
- Low gearing with 84% of drawn debt facilities at the year end at a fixed rate of interest; and
- A stable investment portfolio and does not undertake speculative development.

No other emerging risks have been added to the Company’s Risk Register during the year.

Going concern and longer-term viability

In accordance with Provision 31 of the UK Corporate Governance Code 2018 issued by the Financial Reporting Council ("the Code"), the Directors have assessed the prospects of the Company over a period longer than 12 months. The Board resolved to conduct this review for a period of three years, because:

- The Company's forecasts cover a three-year period; and
- The Board believes a three-year horizon maintains a reasonable level of accuracy regarding projected rental income and costs, allowing robust sensitivity analysis to be conducted.

The Directors have assessed the following factors in assessing the Company's status as a going concern and its longer-term viability, including events up to the date of authorisation of the financial statements:

- A decrease in revenue through losses of contractual rent or tenant default;
- Diminished demand for leasing the Company's assets going forwards resulting in rental decreases or an increase in void units;
- Contractual obligations due or anticipated within one year;
- Potential liquidity and working capital shortfalls;
- Access to funding and compliance with banking covenants; and
- Ongoing compliance with regulatory requirements including the REIT regime.

The Directors note that the Company has performed strongly during the year with rent collection rates back a pre-pandemic levels and industrial valuations and rents in particular improving over the last 12 months.

Results of the assessment

Based on prudent assumptions within the Company's forecasts regarding losses of contractual rent, tenant default, void rates and property valuation movements, the Directors expect that over the three-year period of their assessment:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Borrowing covenants are complied with; and
- REIT tests are complied with.

Sensitivities

These assessments are subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections:

- A decrease in revenue through losses of contractual rent or tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY, disposals, anticipated capital expenditure and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

This sensitivity analysis also evaluates the potential impact of the principal risks and uncertainties should they occur which, together with the steps taken to mitigate them, are highlighted above and in the Audit and Risk Committee report. The Board seeks to ensure that risks are mitigated appropriately and managed within its risk appetite all times.

Sensitivity analysis considered the following areas:

<u>Covenant compliance</u>

The Company operates the loan facilities summarised in Note 15. At 31 March 2022 the Company had significant headroom on lender covenants at a portfolio level with:

- Company net gearing of 19.1% compared to a maximum LTV covenant of 35% and £207.2m (31% of the property portfolio) unencumbered by the Company's borrowings; and
- Had 207% minimum headroom on interest cover covenants for the quarter ended 31 March 2022.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated that:

- The rate of loss or deferral of contractual rent on the borrowing facility with least headroom would need to deteriorate by 45% from the levels included in the Company's prudent forecasts to breach interest cover covenants; or
- At a portfolio level property valuations would have to decrease by 41% from the 31 March 2022 position to risk breaching the overall 35% LTV covenant.

The Board notes that the February 2022 IPF Forecasts for UK Commercial Property Investment survey suggests an average 2.5% increase in rents during 2022 with capital value increases of 4.1%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 160 assets and over 300 typically 'institutional grade' tenants across all commercial sectors.

<u>Liquidity</u>

At 31 March 2022 the Company had:

- £11.6m of cash-in-hand and £52.2m undrawn RCF, with gross borrowings of £137.8m resulting in low net gearing, with no short-term refinancing risk (on refinancing the RBS RCF in June 2022) and a weighted average debt facility maturity of six years; and
- An annual contractual rent roll of £40.5m, with interest costs on drawn loan facilities of only c. £4.6m per annum.

The Company's forecast model projects it will have sufficient cash and undrawn facilities to settle its target dividends and its expense and interest liabilities for a period of at least 12 months.

As detailed in Note 15, the Company's Lloyds RCF expires in September 2024. The Board anticipates lender support in agreeing subsequent facilities, and would seek to refinance the RCF with another lender or dispose of sufficient properties to repay it in September 2024 in the unlikely event of lender support being withdrawn.

Impact of emerging risks

The Board believes it too early to understand fully the longer-term impact of the COVID-19 pandemic, Brexit and the war in Ukraine but the Board believes the Company is well placed to weather any shorter-term impacts due to the reasons set out in the Principal risks and uncertainties section.

Section 172 statement and stakeholder relationships

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 ("the Act") by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

Issues, factors and stakeholders

The Board has direct engagement with the Company's shareholders and seeks a rounded and balanced understanding of the broader impact of its decisions through regular engagement with its stakeholder groups (detailed below) to understand their views, typically through feedback from the Investment Manager and the Company's broker, which is regularly communicated to the Board via quarterly meetings. Stakeholder engagement also ensures the Board is kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

Management of the Company's day-to-day operations has been delegated to the Investment Manager, Custodian Capital Limited, and the Company has no employees. This externally managed structure allows the Board and the Investment Manager to have due regard to the impact of decisions on the following matters specified in Section 172 (1) of the Act:

Section 172(1) factor	**Approach taken**
Likely consequences of any decision in the long-term	The business model and strategy of the Company is set out within the Strategic Report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives. At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three year forecast model. The Investment Manager reports non-financial and financial key performance indicators to the Board, set out in detail in the Business model and strategy section of the Strategic report, at least quarterly which are used to assess the outcome of decisions made. The Board's commitment to keeping in mind the long-term consequences of its decisions underlies its focus on risk, including risks to the long-term success of the business. This approach resulted in the change to dividend policy during the year to preserve cash resources by broadly paying dividends from net rental income, in response to the political and market uncertainty caused by the COVID 19 pandemic. The investment strategy of the Company is focused on medium to long-term returns and minimising the Company's impact on communities and the environment and as such the long-term is firmly within the sights of the Board when all material decisions are made. The board gains an understanding of the views of the Company's key stakeholders from the Investment Manager, broker and Management Engagement Committee,

	and considers those stakeholders' interests and views in board discussions and long-term decision-making.
The interests of the Company's employees	The Company has no employees as a result of its external management structure, but the Directors have regard to the interests of the individuals responsible for delivery of the property management and administration services to the Company to the extent that they are able to. The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee Report to Board recruitment.
The need to foster the Company's business relationships with suppliers, customers and others	Business relationships with suppliers, tenants and other counterparties are managed by the Investment Manager. Suppliers and other counterparties are typically professional firms such as lenders, property agents and other property professionals, accounting firms and legal firms and tenants with which the Investment Manager often has a longstanding relationship. Where material counterparties are new to the business, checks, including anti money laundering checks where appropriate, are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also periodically reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015. The Company pays suppliers in accordance with pre-agreed terms. The Management Engagement Committee engages directly with the Company's key service providers providing a direct line of communication for receiving feedback and resolving issues. Because the Investment Manager directly invoices most tenants and collects rent without using managing agents, it has open lines of communication with tenants and can understand and resolve any issues promptly.
The impact of the Company's operations on the community and the environment	The Board recognises the importance of supporting local communities where the Company's assets are located and seeks to invest in properties which will be fit for future purpose and which align with ESG targets. The Company also seeks to benefit local communities by creating social value through employment, viewing its properties as a key part of the fabric of the local economy. The Board takes overall responsibility for the Company's impact on the community and the environment and its ESG policies are set out in the ESG report. The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report.
The desirability of the Company maintaining a reputation for high standards of business conduct	The Board believes that the ability of the Company to conduct its investment business and finance its activities depends in part on the reputation of the Board and Investment Manager's team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically. The principal risks and uncertainties facing the business are set out in that section of the Strategic report. The Company's requirements for a high standard of conduct and business ethics are set out in the Governance report.

The need to act fairly as between members of the Company	The Company's shareholders are a very important stakeholder group. The Board oversees the Investment Manager's formal investor relations programme which involves the Investment Manager engaging routinely with the Company's shareholders. The programme is managed by the Company's broker and the Board receives prompt feedback from both the Investment Manager and broker on the outcomes of meetings and presentations. The Board and Investment Manager aim to be open with shareholders and available to them, subject to compliance with relevant securities laws. The Chairman of the Company and other Non-Executive Directors make themselves available for meetings as appropriate and attend the Company's AGM. The investor relations programme is designed to promote formal engagement with investors and is typically conducted after each half-yearly results announcement. The Investment Manager also engages with existing investors who may request meetings and with potential new investors on an ad hoc basis throughout the year, including where prompted by Company announcements. Shareholder presentations are made available on the Company's website. The Company has a single class of share in issue with all members of the Company having equal rights.

Methods used by the Board

The main methods used by the Directors to perform their duties include:

- Board Strategy Days held at least annually to review all aspects of the Company's business model and strategy and assess the long-term sustainable success of the Company and its impact on key stakeholders;
- The Management Engagement Committee engages with the Company's key service providers and reports on their performance to the Board. The responsibilities of the Management Engagement Committee are detailed in the Management Engagement Committee report;
- The Board is ultimately responsible for the Company's ESG activities set out in the ESG Committee report, which it believes are a key part of benefitting the local communities where the Company's assets are located;
- The Board's risk management procedures set out in the Governance report identify the potential consequences of decisions in the short, medium and long-term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to the Company and wider stakeholders;
- The Board sets the Company's purpose, values and strategy, detailed in the Business model and strategy section of the Strategic report, and the Investment Manager ensures they align with its culture;
- The Board carries out direct shareholder engagement via the AGM and Directors attend shareholder meetings on an ad hoc basis;
- External assurance is received through internal and external audits and reports from brokers and advisers; and
- Specific training for existing Directors and induction for new Directors as set out in the Governance report.

Principal decisions in the year

The Board has delegated operational functions to the Investment Manager and other key service providers. In particular, responsibility for management of the Company's property portfolio has been delegated to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving certain key matters as set out in the Governance report.

The principal non-routine decisions taken by the Board during the year were:

- Completing the corporate acquisition of DRUM REIT as detailed in the Investment Manager's report;
- Appointing Savills as one of the Company's independent valuers from 30 June 2021 replacing Lambert Smith Hampton;
- Extending the term of the RCF as detailed in Note 15;
- Finalising the Company's policy on cladding explained further in the ESG Committee report;
- Appointing new Directors as detailed in the Chairman's statement; and
- Constituting an ESG Committee as detailed in the ESG Committee report.

Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions. Each decision was announced at the time, so that all stakeholders were aware of the decisions.

Stakeholders

The Board recognises the importance of stakeholder engagement to deliver its strategic objectives and believes its stakeholders are vital to the continued success of the Company. The Board is mindful of stakeholder interests and keeps these at the forefront of business and strategic decisions. Regular engagement with stakeholders is fundamental to understanding their views. The below section highlights how the Company engages with its key stakeholders, why they are important and the impact they have on the Company and therefore its long-term success, which the Board believes helps demonstrate the successful discharge of its duties under s172(1) of the Act.

Stakeholder	Stakeholder interests	Stakeholder engagement
Tenants The Investment Manager understands the businesses occupying the Company's assets and seeks to create long-term partnerships and understand their needs to deliver fit for purpose real estate and develop asset management opportunities to underpin long-term sustainable income growth and maximise occupier satisfaction	• High quality assets • Profitability • Efficient operations • Knowledgeable and committed landlord • Flexibility to adapt to the changing UK commercial landscape • Buildings with strong environmental credentials	• Regular dialogue through rent collection process • Review published data, such as accounts, trading updates and analysts' reports • Ensured buildings comply with the necessary safety regulations and insurance • Most tenants contacted to request environmental performance data • Occupancy has remained at over 90% during the year
The Investment Manager and its employees As an externally managed fund the Company's key service provider is the Investment Manager and its employees are a key stakeholder. The Investment Manager's culture aligns with that of the Company and its long-standing reputation of operating in the smaller lot-size market is key when representing the Company	• Long-term viability of the Company • Long-term relationship with the Company • Well-being of the Investment Manager's employees • Being able to attract and retain high-calibre staff • Maintaining a positive and transparent relationship with the Board	• Board and Committee meetings • Face-to-face and video-conference meetings with the Chairman and other Board Directors • Monthly and quarterly KPI reporting to the Board • Board evaluation, including feedback from key Investment Manager personnel • Informal meetings and calls
Suppliers A collaborative relationship with our suppliers, including those to whom key services are outsourced, ensures that we receive high quality services to help deliver strategic and investment objectives	• Collaborative and transparent working relationships • Responsive communication • Being able to deliver service level agreements	• Board and Committee meetings • One-to-one meetings • Annual review of key service providers for the Management Engagement Committee
Shareholders Building a strong investor base through clear and transparent communication is vital to building a successful and sustainable business and generating long-term growth	• Sustainable growth • Attractive level of income returns • Strong Corporate Governance and environmental credentials • Transparent reporting framework	• Annual and half year presentations • AGM • Market announcements and corporate website • Regular investor feedback received from the Company's broker • On-going dialogue with analysts

Stakeholder	Stakeholder interests	Stakeholder engagement
Lenders Our lenders play an important role in our business. The Investment Manager maintains close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding	• Stable cash flows • Stronger covenants • Being able to meet interest payments • Maintaining agreed gearing ratios • Regular financial reporting • Proactive notification of issues or changes	• Regular covenant reporting • Regular catch-up calls
Government, local authorities and communities As a responsible corporate citizen the Company is committed to engaging constructively with central and local government and ensuring we support the wider community	• Openness and transparency • Proactive compliance with new legislation • Proactive engagement • Support for local economic and environmental plans and strategies • Playing its part in providing the real estate fabric of the economy, giving employers a place of business	• Engagement with local authorities where we operate • Two way dialogue with regulators and HMRC

Approval of Strategic report

The Strategic report, (incorporating the Business model and strategy, Chairman’s statement, Investment Manager’s report, Asset management report, ESG Committee report, Financial report, Property portfolio, Principal risks and uncertainties and Section 172 statement and stakeholder relationships) was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chairman
16 June 2022

Board of Directors and Investment Manager personnel

The Board currently comprises seven non-executive directors. A short biography of each director is set out below:

David Hunter - Independent Chairman, age 68

David is a professional non-executive director and strategic adviser focused principally on UK and international real estate. He chairs the Company and its Nominations Committee and is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University.

David is Non-Executive Chair of Capital & Regional plc ("C&R"). The Board perceives no material conflicts of interest between Custodian REIT and the activities of C&R due to their divergent property strategies.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Elizabeth McMeikan – Senior Independent Director, age 60

Elizabeth joined the Board as Senior Independent Director ("SID") on 1 April 2021. Her substantive executive career was with Tesco plc where she was a Stores Board Director before embarking on a non-executive career in 2005.

Elizabeth is currently SID and Remuneration Committee Chair at The Unite Group Plc, the UK's largest owner, manager and developer of purpose-built student accommodation and Non-Executive Director and ESG Committee Chair of Dalata Hotel Group plc, the largest hotel group in the Republic of Ireland. Her other Board roles include Non-Executive Director and Remuneration Committee Chair at McBride plc, Europe's leading manufacturer of cleaning and hygiene products, and Non-Executive Director of Fresca Group Limited, a fruit and vegetable import/export company.

Previously she was SID of JD Wetherspoon plc, SID and Remuneration Committee Chair of Flybe plc and Chair of Moat Homes Limited.

Elizabeth's other roles are not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

Matthew Thorne FCA - Independent Director, age 69

Matthew chairs the Company's Audit and Risk Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He was an independent non-executive director for nine years of Bankers Investment Trust plc, retiring in 2018 having chaired the Audit Committee. Since May 2007 Matthew has been an adviser to Consensus Business Group (led by Vincent Tchenguiz). Matthew was also Audit Committee chair and the finance member of the Advisory Board and Advisory Panel of Greenwich Hospital, the Naval Charity, until January 2020. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991 to 1992 and Investment Director of Beazer plc from 1983 to 1991.

Matthew is expected to retire from the Board at the AGM on 31 August 2022.

Hazel Adam - Independent Director, age 53

Hazel was an investment analyst with Scottish Life until 1996 and then joined Standard Life Investments. As a fund manager she specialised in UK and then Emerging Market equities. In 2005 Hazel joined Goldman Sachs International as an executive director on the new markets equity sales desk before moving to HSBC in 2012, holding a similar equity sales role until 2016.

Hazel is an independent non-executive director of Aberdeen Latin American Income Fund Limited and holds the CFA Level 4 certificate in ESG Investing and the Financial Times Non-Executive Directors Diploma.

Hazel's other role is not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

Chris Ireland FRICS - Independent Director, age 64

Chris was appointed as an Independent Director on 1 April 2021. Chris joined international property consultancy King Sturge in 1979 as a graduate and has worked his whole career across the UK investment property market. He ran the investment teams at King Sturge before becoming Joint Managing Partner and subsequently Joint Senior Partner prior to its merger with JLL in 2011.

Chris was appointed as Chief Executive Officer of JLL UK in 2016 and became its Chair in April 2021. He will continue to play an active role in the capital markets business and is committed to leading the property sector on sustainability and supporting the debate around the climate emergency.

Chris is a former Chair of the Investment Property Forum and is a Non-Executive Director of Le Masurier, a Jersey based family trust with assets across the UK, Germany and Jersey. Chris is also a keen supporter of the UK homelessness charity Crisis.

Chris' other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Malcolm Cooper FCCA FCT - Independent Director, age 63

Malcolm was appointed to the Board on 6 June 2022.

He is a qualified accountant and an experienced FTSE 250 company Audit Committee Chair with an extensive background in corporate finance and a wide experience in infrastructure and property.

Malcolm worked with Arthur Andersen and British Gas/BG Group/Lattice before spending 15 years with National Grid with roles including Managing Director of National Grid Property and Global Tax and Treasury Director, and culminated in the successful sale of a majority stake in National Grid's gas distribution business, now known as Cadent Gas.

Malcolm is currently a Non-Executive Director of Morgan Sindall Group plc, a FTSE 250 UK construction and regeneration business, Chairing its Audit and Responsible Business Committees. He is also Senior Independent Director of MORhomes plc, Non-Executive Director and Audit Committee Chair at Southern Water Services Limited and Non-Executive Director and Audit and Risk Committee Chair at Local Pensions Partnership Investment.

Malcolm was previously Senior Independent Director and Audit Committee chair at CLS Holdings plc, a Non-Executive Director of St William Homes LLP, President of the Association of Corporate Treasurers and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Malcolm's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Ian Mattioli MBE - Director, age 59

Ian is CEO of Mattioli Woods plc ("Mattioli Woods") with over 35 years' experience in financial services, wealth management and property businesses and is the founder director of Custodian REIT. Together with Bob Woods, Ian founded Mattioli Woods, the AIM-listed wealth management and employee benefits business which is the parent company of the Investment Manager. Mattioli Woods now has over £15bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of its investment proposition, including the syndicated property initiative that developed into the seed portfolio for the launch of Custodian REIT. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the year in the 2018 City of London wealth management awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire and was appointed High Sheriff of Leicestershire in March 2021, an independent non-political Royal appointment for a single year. Ian is also Non-Executive Chair of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Ian’s other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Investment Manager personnel

Short biographies of the Investment Manager’s key personnel and senior members of its property team are set out below:

Richard Shepherd-Cross MRICS - Managing Director

Richard qualified as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team.

Since joining Mattioli Woods in 2009, Richard established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian REIT plc from Mattioli Woods’ syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £0.6bn. Richard and his family own 371,381 shares in the Company.

Ed Moore FCA – Finance Director

Ed qualified as a Chartered Accountant in 2003 with Grant Thornton, specialising in audit, financial reporting and internal controls across its Midlands practice. He is Finance Director of Custodian Capital with responsibility for all day-to-day financial aspects of its operations. Ed is also a member of the Custodian Capital Investment Committee.

Since IPO in 2014 Ed has overseen the Company raising over £300m of new equity, arranging or refinancing seven loan facilities and completing four corporate acquisitions, including leading on the acquisition of DRUM REIT. Ed’s key responsibilities for Custodian REIT are accurate external and internal financial reporting, ongoing regulatory compliance and maintaining a robust control environment. Ed is Company Secretary of Custodian REIT and is a member of the Investment Manager’s Investment Committee. Ed is also responsible for the Investment Manager’s environmental initiatives, attending Custodian REIT ESG Committee meetings and co-leading the Investment Manger’s ESG working group.

Ian Mattioli MBE - Founder and Chair

Ian's biography is set out above.

Alex Nix MRICS – Assistant Investment Manager

Alex graduated from Nottingham Trent University with a degree in Real Estate Management before joining Lambert Smith Hampton, where he spent eight years and qualified as a Chartered Surveyor in 2006.

Alex is Assistant Investment Manager to Custodian REIT having joined Custodian Capital in 2012. Alex heads the Company's property management and asset management initiatives, assists in sourcing and executing new investments and is a member of the Investment Manager's Investment Committee.

Tom Donnachie MRICS – Portfolio Manager

Tom graduated from Durham University with a degree in Geography before obtaining an MSc in Real Estate Management from Sheffield Hallam University. Tom worked in London for three years where he qualified as a Chartered Surveyor with Workman LLP before returning to the Midlands first with Lambert Smith Hampton and then CBRE.

Tom joined Custodian Capital in 2015 as Portfolio Manager with a primary function to maintain and enhance the existing property portfolio and assist in the selection and due diligence process regarding new acquisitions. Tom co-leads the Investment Manager's environmental working group and attends Custodian REIT ESG Committee meetings.

Javed Sattar MRICS – Portfolio Manager

Javed joined Custodian Capital in 2011 after graduating from Birmingham City University with a degree in Estate Management Practice. Whilst working as a trainee surveyor on Custodian REIT's property portfolio for Custodian Capital he completed a PGDip in Surveying via The College of Estate Management and qualified as a Chartered Surveyor in 2017.

Javed operates as Portfolio Manager managing properties predominantly located in the North-West of England.

Consolidated statements of comprehensive income
For the year ended 31 March 2022

	Note	Group		Company	
		Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Revenue	4	**39,891**	39,578	**38,490**	39,578
Investment management		**(3,854)**	(3,331)	**(3,782)**	(3,331)
Operating expenses of rental property					
- rechargeable to tenants		**(852)**	(914)	**(852)**	(914)
- directly incurred		**(3,422)**	(5,559)	**(3,174)**	(5,559)
Professional fees		**(617)**	(489)	**(579)**	(489)
Directors' fees		**(291)**	(218)	**(291)**	(218)
Administrative expenses		**(776)**	(551)	**(774)**	(551)
Expenses		**(9,812)**	(11,062)	**(9,452)**	(11,062)
Operating profit before financing and revaluation of investment property		**30,079**	28,516	**29,038**	28,516
Unrealised profits/(losses) on revaluation of investment property:					
- relating to property revaluations	10	**93,977**	(19,611)	**86,656**	(19,611)
- relating to costs of acquisition	10	**(2,273)**	(707)	**(2,273)**	(707)
Valuation increase/(decrease)		**91,704**	(20,318)	**84,383**	(20,318)
Profit on disposal of investment property		**5,369**	393	**5,369**	393
Net profit/(loss) on investment property		**97,073**	(19,925)	**89,752**	(19,925)
Operating profit before financing		**127,152**	8,591	**118,790**	8,591
Finance income	6	**-**	61	**-**	61
Finance costs	7	**(4,827)**	(4,903)	**(4,615)**	(4,903)
Net finance costs		**(4,827)**	(4,842)	**(4,615)**	(4,842)
Profit before tax		**122,325**	3,749	**114,175**	3,749
Income tax expense	8	**-**	-	**-**	-
Profit for the year and total comprehensive income for the year, net of tax		**122,325**	3,749	**114,175**	3,749
Attributable to:					
Owners of the Company		**122,325**	3,749	**114,175**	3,749
Earnings per ordinary share:					
Basic and diluted (p)	3	**28.5**	0.9		
EPRA (p)	3	**5.9**	5.6		

The profit for the year arises from continuing operations.

Consolidated and Company statements of financial position
As at 31 March 2022
Registered number: 08863271

	Note	Group		Company	
		31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Non–current assets					
Investment property	10	**665,186**	551,922	**616,211**	551,922
Investments	11	**-**	-	**22,538**	3,405
Total non-current assets		**665,186**	551,922	**638,749**	555,327
Current assets					
Trade and other receivables	12	**5,201**	6,001	**3,365**	6,001
Cash and cash equivalents	14	**11,624**	3,920	**9,217**	3,920
Total current assets		**16,825**	9,921	**12,582**	9,921
Total assets		**682,011**	561,843	**651,331**	565,248
Equity					
Issued capital	16	**4,409**	4,201	**4,409**	4,201
Share premium	16	**250,970**	250,469	**250,970**	250,469
Merger reserve	16	**18,931**	-	**18,931**	-
Retained earnings	16	**253,330**	155,196	**245,180**	155,196
Total equity attributable to equity holders of the Company		**527,640**	409,866	**519,490**	409,866
Non-current liabilities					
Borrowings	15	**113,883**	138,604	**113,883**	138,604
Other payables		**570**	572	**570**	572
Total non-current liabilities		**114,453**	139,176	**114,453**	139,176
Current liabilities					
Borrowings	15	**22,727**	-	**-**	-
Trade and other payables	13	**9,783**	6,185	**10,985**	9,590
Deferred income		**7,408**	6,616	**6,403**	6,616
Total current liabilities		**39,918**	12,801	**17,388**	16,206
Total liabilities		**154,371**	151,977	**131,841**	155,382
Total equity and liabilities		**682,011**	561,843	**651,331**	565,248

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 16 June 2022 and are signed on its behalf by:

David Hunter
Chairman

Consolidated and Company statements of cash flows

For the year ended 31 March 2022

	Note	Group **Year ended 31 March 2022 £000**	Group Year ended 31 March 2021 £000	Company **Year ended 31 March 2022 £000**	Company Year ended 31 March 2021 £000
Operating activities					
Profit for the year		**122,325**	3,749	**114,175**	3,749
Net finance costs		**4,827**	4,842	**4,615**	4,842
Valuation (increase)/decrease of investment property	10	**(91,704)**	20,318	**(84,383)**	20,318
Impact of rent free	10	**(1,112)**	(1,932)	**(1,157)**	(1,932)
Amortisation of right-of-use asset		**7**	7	**7**	7
Profit on disposal of investment property		**(5,369)**	(393)	**(5,369)**	(393)
Cash flows from operating activities before changes in working capital and provisions		**28,974**	26,591	**27,888**	26,591
(Increase)/decrease in trade and other receivables		**1,923**	(704)	**2,636**	(704)
(Decrease)/increase in trade and other payables and deferred income		**1,702**	(2,065)	**1,180**	(2,065)
Cash generated from operations		**32,599**	23,822	**31,704**	23,822
Interest and other finance charges		**(4,463)**	(4,556)	**(4,279)**	(4,556)
Net cash flows from operating activities		**28,136**	19,266	**27,425**	19,266
Investing activities					
Purchase of investment property		**(21,529)**	(11,443)	**(21,529)**	(11,443)
Capital expenditure and development		**(3,515)**	(2,308)	**(3,510)**	(2,308)
Acquisition costs		**(2,272)**	(707)	**(2,272)**	(707)
Disposal of investment property		**54,403**	4,422	**54,403**	4,422
Costs of disposal of investment property		**(479)**	(69)	**(479)**	(69)
Interest and finance income received	6	**-**	61	**-**	61
Net cash used in investing activities		**26,608**	(10,044)	**26,613**	(10,044)
Financing activities					
Proceeds from the issue of share capital	16	**558**	-	**558**	-
Costs of share issue		**(51)**	-	**(51)**	-
Repayment of borrowings and origination costs	15	**(25,057)**	(10,066)	**(25,057)**	(10,066)
Dividends paid	9	**(24,191)**	(20,635)	**(24,191)**	(20,635)
Net cash from financing activities		**(48,741)**	(30,701)	**(48,741)**	(30,701)
Net increase/(decrease) in cash and cash equivalents		**6,003**	(21,479)	**5,297**	(21,479)
Cash acquired through the acquisition of DRUM REIT		**1,701**	**-**	**-**	-
Cash and cash equivalents at start of the year		**3,920**	25,399	**3,920**	25,399

Cash and cash equivalents at end of the year	**11,624**	3,920	**9,217**	3,920

Consolidated statement of changes in equity
For the year ended 31 March 2022

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2020		4,201	-	250,469	172,082	426,752
Profit for the year		-	-	-	3,749	3,749
Total comprehensive income for year		-	-	-	3,749	3,749
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	-	-	-	(20,635)	(20,635)
Issue of share capital	16	-	-	-	-	-
As at 31 March 2021		4,201	-	250,469	155,196	409,866
Profit for the year		-	-	-	122,325	122,325
Total comprehensive income for year		-	-	-	122,325	122,325
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	-	-	-	(24,191)	(24,191)
Issue of share capital	16	208	18,931	501	-	19,640
As at 31 March 2022		**4,409**	**18,931**	**250,970**	**253,330**	**527,640**

Company statement of changes in equity
For the year ended 31 March 2022

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2020		4,201	-	250,469	172,082	426,752
Profit for the year		-	-	-	3,749	3,749
Total comprehensive income for year		-	-	-	3,749	3,749
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	-	-	-	(20,635)	(20,635)
Issue of share capital	16	-	-	-	-	-
As at 31 March 2021		4,201	-	250,469	155,196	409,866
Profit for the year		-	-	-	114,175	114,175
Total comprehensive income for year		-	-	-	114,175	114,175
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	-	-	-	(24,191)	(24,191)
Issue of share capital	16	208	18,931	501	-	19,640
As at 31 March 2022		**4,409**	**18,931**	**250,970**	**245,180**	**519,490**

Notes to the financial statements for the year ended 31 March 2022

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 16 June 2022.

2. Basis of preparation and accounting policies

- *Basis of preparation*

The consolidated financial statements and the separate financial statements of the parent company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted by the UK. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

- *Basis of consolidation*

The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. Other subsidiaries have September or December accounting reference dates which have not been amended since their acquisition as those companies are expected to be liquidated during the next financial year. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

- *Business combinations*

Where property is acquired, via corporate acquisitions or otherwise, the substance of the assets and activities of the acquired entity are considered in determining whether the acquisition represents a business combination or an asset purchase under IFRS 3 - Business Combinations. Where such acquisitions are not judged to be a business combination the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations using the acquisition method.

- *Application of new and revised International Financial Reporting Standards*

During the year the Company adopted the following new standards with no impact on reported financial performance or position:

- IFRS 17 – 'Insurance Contracts'
  IFRS 17 became effective for periods commencing on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

At the date of authorisation of these financial statements, there were no new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective.

- *Significant accounting policies*

The principal accounting policies adopted by the Group and Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully and the Company's projections show that it should be able to operate within the level of its current financing arrangements for at least the next 12 months, set out in more detail in the Directors' report and Principal risks and uncertainties section of the Strategic report. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight-line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are recognised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment property is held to earn rentals and/or for capital appreciation and is initially recognised at cost including direct transaction costs. Investment property is subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment property is recognised in profit or loss in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

Group undertakings

Investments are included in the Company only statement of financial position at cost less any provision for impairment.

Non-listed equity investments

Non-listed equity investments are classified at fair value through profit and loss and are subsequently measured using level 3 inputs, meaning valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in profit or loss.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in profit or loss. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the

Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

The areas where a higher degree of judgement or complexity arises are discussed below:

- *Valuation of investment property* - Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers make reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates.

Estimates

Areas where accounting estimates are significant to the financial statements are:

- *Doubtful debt provisioning* – the approach to providing for 'expected credit losses' is detailed in Note 12 and uses estimates within a matrix of how much the credit risk of trade receivables has increased since initial recognition based on a number of days overdue, taking into account qualitative and quantitative supportable information. Each individual property rental receivable is reviewed to assess whether there is a probability of default and expected credit loss given the Investment Manager's knowledge of the specific tenant over and above the provision calculated from the matrix.

3. Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Any shares issued after the year end are disclosed in Note 20.

The Company is a FTSE EPRA/NAREIT index series constituent and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS which the Directors consider are better indicators of performance.

Group	**Year ended 31 March 2022**	Year ended 31 March 2021
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**122,325**	3,749
Net (profit)/loss on investment property (£000)	**(97,073)**	19,925
EPRA net profit attributable to equity holders of the Company (£000)	**25,252**	23,674
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**420,053**	420,053
Effect of shares issued during the year (thousands)	**8,649**	-
Basic and diluted weighted average number of shares (thousands)	**428,702**	420,053
Basic and diluted EPS (p)	**28.5**	0.9
EPRA EPS (p)	**5.9**	5.6

4. Revenue

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Gross rental income from investment property	**39,039**	38,664	**37,638**	38,664
Income from recharges to tenants	**852**	914	**852**	914
	39,891	39,578	**38,490**	39,578

5. Operating profit

Operating profit is stated after (crediting)/charging:

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Profit on disposal of investment property	**(5,369)**	(393)	**(5,369)**	(393)
Investment property valuation (increase)/decrease	**(91,704)**	20,318	**(91,704)**	20,318
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**138**	106	**138**	106
Fees payable to the Company's auditor and its associates for other services	**25**	20	**25**	20
Administrative fee payable to the Investment Manager	**459**	416	**459**	416
Directly incurred operating expenses of vacant rental property	**1,826**	822	**1,611**	822
Directly incurred operating expenses of let rental property	**1,444**	1,142	**1,418**	1,142
Movement in doubtful debt provision, write offs due to tenant business failure and rent concessions	**7**	3,591	**(26)**	3,591
Amortisation of right-of-use asset	**7**	7	**7**	7

Fees payable to the Company's auditor, Deloitte LLP, are further detailed in the Audit and Risk Committee report.

6. Finance income

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Bank interest	**-**	28	**-**	28
Finance income	**-**	33	**-**	33
	-	61	**-**	61

7. Finance costs

	Group		Company	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Amortisation of arrangement fees on debt facilities	**364**	347	**337**	347
Other finance costs	**307**	287	**302**	287
Bank interest	**4,156**	4,269	**3,976**	4,269
	4,827	4,903	**4,615**	4,903

8. Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 19.0%. The differences are explained below:

	Group		**Company**	
	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Profit before income tax	**122,325**	3,749	**114,175**	3,749
Tax charge on profit at a standard rate of 19.0% (2021: 19.0%)	**23,242**	712	**21,693**	712
Effects of:				
REIT tax exempt rental profits and gains	**(23,242)**	(712)	**(21,693)**	(712)
Income tax expense	**-**	-	**-**	-
Effective income tax rate	**0.0%**	0.0%	**0.0%**	0.0%

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax.

9. Dividends

Group and Company	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
- 31 March 2021: 1.25p (2020: 1.6625p)	**5,257**	6,983
- 31 March 2021: 0.5p (2020: nil)	**2,102**	-
Current year		
- 30 June 2021: 1.25p (2020: 0.95p)	**5,257**	3,990
- 30 September 2021: 1.25p (2020: 1.05p)	**5,511**	4,411
- 31 December 2021: 1.375p (2020: 1.25p)	**6,062**	5,251
	24,191	20,635

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2022 of 1.375p per ordinary share (totalling £6.1m) on 31 May 2022 to shareholders on the register at the close of business on 13 May 2022 which has not been included as liabilities in these financial statements.

10. Investment property

	Group	Company
	£000	£000
At 31 March 2020	559,817	559,817
Impact of lease incentives	1,932	1,932
Additions	12,150	12,150
Amortisation of right-of-use asset	(7)	(7)
Capital expenditure and development	2,308	2,308
Disposals	(3,960)	(3,960)
Valuation decrease before acquisition costs	(19,611)	(19,611)
Acquisition costs	(707)	(707)
Valuation decrease including acquisition costs	(20,318)	(20,318)
At 31 March 2021	**551,922**	**551,922**
Impact of lease incentives	1,112	1,158
Additions	65,495	23,801
Amortisation of right-of-use asset	(7)	(7)
Capital expenditure and development	3,515	3,510
Disposals	(48,555)	(48,555)
Valuation increase before acquisition costs	93,977	86,655
Acquisition costs	(2,273)	(2,273)
Valuation increase including acquisition costs	91,704	84,382
At 31 March 2022	**665,186**	**616,211**

£458.0m (2021: £391.9m) of investment property was charged as security against the Company's borrowings at the year end. £0.6m (2021: £0.6m) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2022 comprises £557.8m freehold (2021: £444.1m) and £107.4m leasehold property (2021: £107.8m).

Investment property is stated at the Directors' estimate of its 31 March 2022 fair value. Savills (UK) Limited ("Savills") and Knight Frank LLP ("KF"), professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2022 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS"). Savills and KF have recent experience in the relevant locations and categories of the property being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.3% to 12.3%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

11. Investments

Shares in subsidiaries

Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	**31 March 2022 £000**	31 March 2021 £000
Custodian Real Estate Limited	08882372	England and Wales	Non-trading	100%	**-**	-
Custodian Real Estate BL Limited	09270501	England and Wales	Non-trading – in liquidation	100%	**-**	-
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Non-trading – in liquidation	100%	**4**	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Non-trading – in liquidation	100%	**497**	497
Custodian Real Estate (JMP4) Limited	11187952	England and Wales	Non-trading – in liquidation	100%	**2,904**	2,904
Custodian Real Estate (DROP Holdings) Limited (formerly DRUM Income Plus REIT plc)	9511797	England and Wales	Property investment	100%	**19,133**	-
Custodian Real Estate (DROP) Limited (formerly DRUM Income Plus Limited)*	9515513	England and Wales	Property investment	100%	**-**	-
					22,538	3,405

* Held indirectly

The Company's non-trading UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

Custodian Real Estate (JMP4) Limited was dissolved on 18 April 2022.

DRUM REIT acquisition

The acquisition of DRUM REIT during the year has been accounted for as an asset acquisition. Consideration of £19.1m comprised the issue of 20,247,040 shares at their market value of 94.5p. This consideration was allocated between the fair value of the acquired assets and liabilities of DRUM REIT comprising £0.15m of working capital, £22.7m of net borrowings and £41.65m of investment property.

Non-listed equity investments

Group and Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	**31 March 2022 £000**	31 March 2021 £000
AGO Hotels Limited	12747566	England and Wales	Operator of hotels	4.5%	**-**	-
					-	-

The Company was allotted 4.5% of the ordinary share capital of AGO Hotels Limited on 31 January 2021 as part of a new letting of its hotel asset in Portishead.

12. Trade and other receivables

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Falling due in less than one year:				
Trade receivables	**3,094**	4,192	**2,642**	4,192
Other receivables	**1,960**	1,706	**576**	1,706
Prepayments and accrued income	**147**	103	**147**	103
	5,201	6,001	**3,365**	6,001

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Such balances are provided for in full. For remaining balances the Company has applied an expected credit loss ("ECL") matrix based on its experience of collecting rent arrears. The ECL matrix fully provides for receivable balances more than 180 days past due and partially provides against receivable balances between 60 and 180 days past due.

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Expected credit loss provision				
Opening balance	**3,030**	341	**3,030**	341
(Decrease)/increase in provision relating to trade receivables that are credit-impaired	**(291)**	2,689	**(291)**	2,689
Closing balance	**2,739**	3,030	**2,739**	3,030

The decrease in provision during the year is due to the collection of previously provided for debts.

Tenant rent deposits of £1.1m (2021: £0.9m) are held as collateral against certain trade receivable balances.

13. Trade and other payables

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Falling due in less than one year:				
Trade and other payables	**3,960**	1,730	**1,973**	1,730
Social security and other taxes	**456**	882	**366**	882
Accruals	**4,226**	2,665	**4,100**	2,665
Rental deposits	**1,141**	908	**1,141**	908
Amounts due to subsidiary undertakings	**-**	-	**3,405**	3,405
	9,783	6,185	**10,985**	9,590

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings are due on demand.

14. Cash and cash equivalents

	Group	Company

	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Cash and cash equivalents	**11,624**	3,920	**9,217**	3,920

Group and Company cash and cash equivalents at 31 March 2022 include £1.7m (2021: £2.6m) of restricted cash comprising: £1.1m (2021: £0.9m) rental deposits held on behalf of tenants, £0.3m (2021: £nil) exchange deposits on pipeline acquisitions, £0.3m (2021: £0.2m) retentions held in respect of development fundings and £nil (2021: £1.5m) interest prepayments.

15. Borrowings

	Group			Company		
	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due within one year:						
At 31 March 2021	-	-	-	-	-	-
Borrowings arising from the acquisition of DRUM REIT	22,760	(60)	22,700	-	-	-
Amortisation of arrangement fees	-	27	27	-	-	-
At 31 March 2022	**22,760**	**(33)**	**22,727**	**-**	**-**	**-**
Falling due in more than one year:						
At 31 March 2021	140,000	(1,396)	138,604	140,000	(1,396)	138,604
Net repayment of borrowings	(25,000)	-	(25,000)	(25,000)	-	(25,000)
Arrangement fees incurred	-	(57)	(57)	-	(57)	(57)
Amortisation of arrangement fees	-	336	336	-	336	336
At 31 March 2022	**115,000**	**(1,117)**	**113,883**	**115,000**	**(1,117)**	**113,883**
Total borrowings:						
At 31 March 2022	**137,760**	**(1,150)**	**136,610**	**115,000**	**(1,117)**	**113,883**

During the year the Company and Lloyds agreed to extend the term of the RCF by one year to expire in 2024.

At the year end the Company has the following facilities available:

- A £20m RCF with Lloyds with interest of between 1.5% and 1.8% above three-month LIBOR and is repayable on 17 September 2024. The RCF limit was increased to £50m with Lloyds' consent since the year end;
- A £25m RCF with RBS with interest of 1.75% above SONIA, expiring on 30 September 2022;
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and

- A £50m term loan with Aviva comprising:
  - £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  - £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

The Company's debt facilities contain market-standard cross-guarantees such that a default on an individual facility will result in all facilities falling into default.

Since the year end the Company has arranged a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance the £25m variable rate revolving credit facility with RBS.

16. Share capital

Group and Company Issued share capital	Ordinary shares of 1p	£000
At 1 April 2020	420,053,344	4,201
Issue of share capital	-	-
At 31 March 2021	420,053,344	4,201
Issue of share capital	20,797,054	208
At 31 March 2022	**440,850,398**	**4,409**

During the year, the Company raised £19.7m (before costs and expenses) through the placing of 20,797,054 new ordinary shares.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 25 August 2021, the Board was given authority to issue up to 140,201,115 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 20,797,054 ordinary shares have been issued under the Authority since 25 August 2021, leaving an unissued balance of 119,404,061 at 31 March 2022. The Authority expires on the earlier of 15 months from 25 August 2021 and the subsequent AGM, due to take place on 31 August 2022.

In addition, the Company was granted authority to make market purchases of up to 42,060,344 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

	Company	**Group**	**Group and Company**	
Other reserves	Retained earnings £000	Retained earnings £000	Share premium account £000	Merger reserve £000
At 1 April 2020	172,082	172,082	250,469	-
Shares issued during the year	-	-	-	-
Costs of share issue	-	-	-	-
Profit for the year	3,749	3,749	-	-
Dividends paid	(20,635)	(20,635)	-	-
At 31 March 2021	155,196	155,196	250,469	-
Shares issued during the year	-	-	552	18,931
Costs of share issue	-	-	(51)	-
Profit for the year	114,175	122,325	-	-
Dividends paid	(24,191)	(24,191)	-	-
At 31 March 2022	**245,180**	**253,330**	**250,970**	**18,931**

The nature and purpose of each reserve within equity are:

- Share premium - Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
- Retained earnings - All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.
- Merger reserve - A non-statutory reserve that is credited instead of a company's share premium account in circumstances where merger relief under section 612 of the Companies Act 2006 is obtained.

17. Commitments and contingencies

Company as lessor

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 0 to 15 years. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Not later than one year	**36,512**	36,191	**33,565**	36,191
Year 2	**32,830**	31,771	**30,332**	31,771
Year 3	**27,986**	27,987	**25,819**	27,987
Year 4	**23,367**	23,875	**21,975**	23,875
Year 5	**19,764**	19,300	**18,546**	19,300
Later than five years	**67,843**	72,428	**62,418**	72,428
	208,302	211,552	**192,655**	211,552

The following table presents amounts reported in revenue:

	Group		Company	
	31 March 2022 £000	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000
Lease income on operating leases	**38,884**	38,621	**37,483**	38,621
Therein lease income relating to variable lease payments that do not depend on an index or rate	**155**	152	**155**	152
	39,039	38,773	**37,638**	38,773

18. Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. Each director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Ed Moore, is also a director of the Investment Manager.

Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

On 22 June 2020 the terms of the IMA were varied to secure the appointment of the Investment Manager for a further three years, with a further year's notice, and to introduce further fee hurdles such that annual management fees payable to the Investment Manager under the IMA are now:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

Administrative fees payable to the Investment Manager under the IMA are now:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.03% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the Initial three year term. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2021: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £4.41m (2021: £3.75m) comprising £3.86m (2021: £3.33m) in respect of annual management fees, £0.46m (2021: £0.42m) in respect of administrative fees, £nil (2021: £nil) in respect of marketing fees and a transaction fee of £0.09m relating to work carried out on the acquisition of DRUM REIT.

Mattioli Woods arranges insurance on behalf of the Company's tenants through an insurance broker and the Investment Manager is paid a commission by the Company's tenants for administering the policy.

19. Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Net gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year-end was 19.1% (2021: 24.9%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of net gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of net gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCFs only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2022, the RBS RCF was drawn at £22.8m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if three-month LIBOR/SONIA had been 0.5% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2022 would decrease/increase by £0.1m due to its variable rate borrowings.

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 45% (2021: 29%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2022 was £3.1m (2021: £4.2m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted average effective interest rate %	31 March 2022 0-3 months £000	31 March 2022 3 months – 1 year £000	31 March 2022 1-5 years £000	31 March 2022 5 years + £000

Trade and other payables	N/a	9,783	-	151	420
Borrowings:					
Variable rate	2.491	100	299	16,585	-
Variable rate	2.441	139	139	-	-
Fixed rate	3.935	197	590	2,656	-
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		10,941	3,196	30,953	107,948

Company	*Weighted average effective interest rate %*	31 March 2022 0-3 months £000	31 March 2022 3 months – 1 year £000	31 March 2022 1-5 years £000	31 March 2022 5 years + £000
Trade and other payables	N/a	10,985	-	151	420
Borrowings:					
Variable rate	2.491	100	299	16,585	
Fixed rate	3.935	197	590	2,656	-
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		12,004	3,057	30,953	107,949

Group	Weighted average effective interest rate %	31 March 2021 0-3 months £000	31 March 2021 3 months – 1 year £000	31 March 2021 1-5 years £000	31 March 2021 5 years + £000
Trade and other payables	N/a	6,185	-	151	421
Borrowings:					
Variable rate	1.888	118	354	25,692	-
Fixed rate	3.935	197	590	2,656	-
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		7,222	3,112	40,060	107,949

Company	*Weighted average effective interest rate %*	31 March 2021 0-3 months £000	31 March 2021 3 months – 1 year £000	31 March 2021 1-5 years £000	31 March 2021 5 years + £000
Trade and other payables	N/a	9,590	-	151	421
Borrowings:					
Variable rate	1.888	118	354	25,692	-
Fixed rate	3.935	197	590	2,656	-
Fixed rate	2.987	336	1,008	5,377	47,939

Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		10,627	3,112	40,060	107,949

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

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

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2021, the fair value of the Company's investment properties was £665.2m (2021: £551.9m).

Interest bearing loans and borrowings – level 3

As at 31 March 2022 the value of the Company's loans with Lloyds, RBS, SWIP and Aviva all held at amortised cost was £137.8m (2021: £140.0m). The difference between the carrying value of Company's loans and their fair value is detailed in Note 21.

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

Impact of the COVID-19 pandemic

As set out in the Principal risks and uncertainties section of the Strategic report, the Board believes it too early to understand fully the longer-term impact of the COVID-19 pandemic, but the Board believes the Company is well placed to weather any short-term impact due to the reasons set out in the Strategic report.

The Board does therefore not consider it necessary or possible to carry out sensitivity analysis on its valuation or cashflow assumptions.

20. Events after the reporting date

Property transactions

Since the year end the Company has acquired:

- A 87k sq ft industrial facility in Grangemouth for £7.5m occupied by Thornbridge Sawmills with an annual passing rent of £388k, reflecting a NIY of 5.5%; and
- A 5k sq ft retail asset in Winchester for £3.65m occupied by Nationwide Building Society and Hobbs with an aggregate annual passing rent of £249k, reflecting a NIY of 6.4%.

Since the year end the Company has sold a 25k sq ft car showroom occupied by Audi for £5.6m.

Borrowings

Since the year end the Company has arranged a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with RBS.

21. Alternative performance measures

NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

Group	**Year ended 31 March 2022**	Year ended 31 March 2021
Net assets (£000)	**527,640**	409,866
Shares in issue at 31 March (thousands)	**440,850**	420,053
NAV per share at the start of the year (p)	**97.6**	101.6
Dividends per share paid during the year (p)	**5.625**	4.9125
NAV per share at the end of the year (p)	**119.7**	97.6
NAV per share total return	**28.4%**	0.9%

Share price total return

A measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the year.

Group	**Year ended 31 March 2022**	Year ended 31 March 2021
Share price at the start of the year (p)	**91.8**	99.0
Dividends per share paid during the year (p)	**5.625**	4.9125
Share price at the end of the year (p)	**101.8**	91.8
Share price total return	**17.0%**	(2.3%)

Dividend cover

The extent to which dividends relating to the year are supported by recurring net income.

Group	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Dividends paid relating to the year	**16,830**	13,652
Dividends approved relating to the year	**6,062**	7,354
	22,892	21,006
Profit after tax	**122,325**	3,749
One-off costs	-	-
Net (profit)/loss on investment property	**(97,073)**	19,925
	25,252	23,674
Dividend cover	**110.3%**	112.7%

Net gearing

Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

Group	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Gross borrowings	**137,760**	140,000
Cash	**(11,624)**	(3,920)
Cash held on behalf of tenants	**1,141**	1,179
Net borrowings	**127,277**	137,259
Investment property	**665,186**	551,922
Net gearing	**19.1%**	24.9%

Ongoing charges

A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV.

Group	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Average quarterly NAV during the year	**462,501**	408,703
Expenses	**9,812**	11,062
Operating expenses of rental property rechargeable to tenants	**(852)**	(914)
	8,960	10,148
Operating expenses of rental property directly incurred	**(3,422)**	(5,559)
One-off costs	**-**	-
	5,538	4,589
OCR	**1.94%**	2.48%
OCR excluding direct property expenses	**1.20%**	1.12%

EPRA performance measures

EPRA promotes, develops and represents the European public real estate sector, providing leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders.

EPRA earnings per share

A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income.

Group	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Profit for the year after taxation	**122,325**	3,749
Net (profit)/loss on investment property	**(97,073)**	19,925
EPRA earnings	**25,252**	23,674
Weighted average number of shares in issue (thousands)	**428,702**	420,053
EPRA earnings per share (p)	**5.9**	5.6

EPRA NAV per share metrics

EPRA NAV metrics make adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.

EPRA Net Reinstatement Value ("NRV")

NRV assumes the Company never sells its assets and aims to represent the value required to rebuild the entity.

Group	**31 March 2022 £000**	31 March 2021 £000
IFRS NAV	**527,640**	409,865
Fair value of financial instruments	**-**	-
Deferred tax	**-**	-
EPRA NRV	**527,640**	409,865
Weighted average number of shares in issue (thousands)	**428,702**	420,053
EPRA NRV per share (p)	**123.1**	97.6

EPRA Net Tangible Assets ("NTA")

Assumes that the Company buys and sells assets for short-term capital gains, thereby crystallising certain deferred tax balances.

Group	**31 March 2022 £000**	31 March 2021 £000
IFRS NAV	**527,640**	409,865
Fair value of financial instruments	**-**	-
Deferred tax	**-**	-
Intangibles	**-**	-
EPRA NTA	**527,640**	409,865
Weighted average number of shares in issue (thousands)	**428,702**	420,053
EPRA NTA per share (p)	**123.1**	97.6

EPRA Net Disposal Value ("NDV")

Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

Group	**31 March 2022 £000**	31 March 2021 £000
IFRS NAV	**527,640**	409,865
Fair value of fixed rate debt	**-**	(9,468)
Deferred tax	**-**	-
EPRA NDV		400,397
Weighted average number of shares in issue (thousands)	**428,702**	420,053
EPRA NDV per share (p)	**123.1**	95.3

The fair value of the liability of Company's interest-bearing loans included in the balance sheet at amortised cost has been calculated based on prevailing swap rates, and excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry. At 31 March 2022 all of the Company's fixed rate debt instruments were 'in the money' so no fair value adjustment has been made in calculating EPRA NDV.

EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY represents annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross property valuation. The EPRA 'topped-up' NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

Group	**31 March 2022 £000**	31 March 2021 £000
Investment property	**665,186**	551,922
Allowance for estimated purchasers' costs[39]	**43,237**	35,875
Gross-up property portfolio valuation	**708,423**	587,797
Annualised cash passing rental income	**37,367**	36,314
Property outgoings	**(1,719)**	(1,004)
Annualised net rents	**35,648**	35,310
Impact of expiry of current lease incentives	**3,126**	2,378
	38,773	37,688

39 Assumed at 6.5% of investment property valuation.

EPRA NIY	**5.0%**	6.0%
EPRA 'topped-up' NIY	**5.5%**	6.4%

EPRA vacancy rate

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio.

Group	**31 March 2022 £000**	31 March 2021 £000
Annualised potential rental value of vacant premises	**4,643**	3,562
Annualised potential rental value for the property portfolio	**45,580**	42,554
EPRA vacancy rate	**10.2%**	8.4%

EPRA cost ratios

EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income.

Group	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Directly incurred operating expenses and administrative fees	**8,960**	10,147
Ground rent costs	**(37)**	(37)
EPRA costs (including direct vacancy costs)	**8,923**	10,110
Property void costs	**(1,525)**	(888)
EPRA costs (excluding direct vacancy costs)	**7,398**	9,222
Gross rental income	**39,039**	38,698
Ground rent costs	**(37)**	(37)
Rental income net of ground rent costs	**39,002**	38,661
EPRA cost ratio (including direct vacancy costs)	**22.9%**	26.1%
EPRA cost ratio (excluding direct vacancy costs)	**19.0%**	23.9%

EPRA capital expenditure

Capital expenditure incurred on the Company's property portfolio during the year.

Group	**31 March 2022 £000**	31 March 2021 £000
Acquisitions	**65,495**	12,150
Development	**-**	691
Like-for-like portfolio	**3,515**	1,617
Total capital expenditure	**69,010**	14,458

EPRA like-for-like rental growth

Like-for-like rental growth of the property portfolio by sector.

			31 March 2022			
Group	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	**Total £000**
Like-for-like rent	14,637	7,887	3,167	5,397	4,168	**35,256**
Acquired properties	218	182	538	-	1,074	**2,012**
Sold properties	976	100	149	546	-	**1,771**
	15,831	8,169	3,854	5,943	5,242	**39,039**

			31 March 2021			
Group	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	16,143	8,641	3,653	6,355	3,500	**38,292**
Acquired properties	38	-	-	26	127	**191**
Sold properties	18	-	163	-	-	**181**
	16,199	8,641	3,816	6,381	3,627	**38,664**

Distribution of the Annual Report and accounts to members

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2022 or 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's AGM. The auditor has reported on the 2022 accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The Annual Report and accounts will be posted to shareholders in due course, and will be available on our website (custodianreit.com) and for inspection by the public at the Company's registered office address: 1 New Walk Place, Leicester LE1 6RU during normal business hours on any weekday. Further copies will be available on request.

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