



# Annual Report & Financial Statements

for the year ended 30 June 2023

[www.alternativeincomereit.com](http://www.alternativeincomereit.com)

# Welcome

Alternative Income REIT PLC aims to offer investors a secure, diversified and inflation-linked income return, whilst at least maintaining capital values in real terms, through exposure to **alternative and specialist** real estate sectors in the UK. The Company's focus is to construct a portfolio with a weighted average unexpired lease term in excess of 18 years and inflation linkage on at least 85% of the portfolio's gross passing rent, each at the time of investment.

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## Financial highlights

At 30 June

# £67.8m

Net Asset Value ('NAV')  
2022: £77.6m  
Change: -12.7%

# 84.16p

NAV per share  
2022: 96.40p  
Change: -12.7%

# 64.70p

Share price  
2022: 82.10p  
Change: -21.2%

# 23.1%

Share price discount to NAV <sup>A</sup>  
2022: 14.8%  
Change: 8.3%

# £107.0m

Investment property fair value  
(based on external valuation)  
2022: £117.9m  
Change: -9.2%

# 36.8%

Loan to gross asset value ('GAV') <sup>A</sup>  
2022: 33.7%

# £41.0m

Loan facility  
2022: £41.0m

<sup>A</sup> Alternative Performance Measure, please see pages 83 to 84 for further details.

For the year ended 30 June

# 6.75p

EPRA earnings per share ('EPS')<sup>A</sup>  
2022: 6.27p  
Change: 7.7%

# (£5.2m)

(Loss)/profit before tax  
2022: £13.2m  
Change: -139.4%

# 6.43p

Adjusted EPS<sup>A</sup>  
2022: 5.57p  
Change: 15.4%

# (6.51p)

(Loss)/earnings per share  
2022: 16.36p  
Change: -139.8%

# 6.045p

Total dividends per share  
2022: 5.50p  
Change: 9.9%

# (14.2%)

Share price total return<sup>A</sup>  
2022: 24.3%

# 106.4%

Dividend cover<sup>A</sup>  
2022: 101.3%  
Change: 5.1%

# (6.7%)

NAV total return<sup>A</sup>  
2022: 22.5%

# 9.3%

Dividend yield<sup>A</sup>  
2022: 6.7%  
Change: 2.6%

# £7.6m

Gross passing rental income  
2022: £7.2m  
Change: 5.6%

# £6.9m

Operating profit (including gain on sale of investment property but excluding fair value changes)  
2022: £6.6m  
Change: 4.5%

# 1.39%

Ongoing charges<sup>A</sup>  
2022: 1.42%  
Change: -3bps

## Financial highlights overview

- The NAV decrease to 84.16 pence per share ("pps") was primarily due to the £10.9 million (9.2%) reduction in the fair value of the investment properties which were impacted by an upward yield movement across the wider UK real estate sector, driven primarily by rises in interest rates and inflation during the year.
- Dividends in respect of the year totalled 6.045pps, a 9.9% increase from the previous year and in excess of the Board's 2023 target annual dividend of at least 5.70pps.
- Dividends declared and paid for the year were 106.4% covered by EPRA earnings per share.
- Dividend yield has increased to 9.3%, a 2.6% increase from the prior year as a result of market conditions negatively impacting the share price of the Company.
- Loss before tax of £5.2 million, equivalent to 6.51pps, is primarily due to the £10.9 million (9.2%) reduction in the fair value of the investment properties.
- Loan to GAV of 36.8% and interest cover ratio of 614.50% gives significant headroom on the lender's loan to value covenant of 60% and interest cover covenant of 250%. The loan matures in October 2025 and is fixed at a weighted average interest cost of 3.19%.



Volvo, Slough

# Operational Overview

## At the Group's year end of 30 June 2023

### £107.0m

#### Group's property portfolio value

The Group's property portfolio had a fair value of £107.0 million across 19 properties  
(2022: £117.9 million across 19 properties)

### 6.6%

#### EPRA Net Initial Yield<sup>A</sup> ('NIY')

(2022: 5.7%)

### 97.0%

#### Inflation linked

97.0% off the portfolio's income stream is reviewed periodically (45% annually) on an upward only, inflation linked basis to Retail Price Index ('RPI') (71%) or Consumer Price Index ('CPI') (26%).

### 100%

of the portfolio remained fully let at the year end.

#### Weighted average unexpired lease term ('WAULT'):

### 17 years

to the earlier of break and expiry

(2022: 17.5 years)

### 18.9 years

to expiry

(2022: 19.4 years)

## Income and expense during the year

### £8.1m

#### Rent recognised

Rent recognised was £8.1 million (2022: £7.5 million), of which £0.4 million was accrued debtors for the combination of rental smoothing of minimum uplifts and rent-free periods (2022: accrued debtors of £0.5 million).

### 14

#### Rent reviews

A total of 14 rent reviews took place during the year, which resulted in a combined rental uplift of £346,000, which represents a 4.8% increase on contracted rent across the portfolio.

### 1.39%

#### Ongoing charges

Ongoing charges decreased from 1.42% to 1.39% which is a result of the Board successfully continuing its effort to manage costs effectively.

### £825,000

#### Received in settlement of litigation

The Group received £825,000 during the year, in full and final settlement of litigation to recover costs incurred in respect of works to replace defective cladding on the Travelodge Hotel, Swindon. This one-off receipt has been proportionally allocated as £606,000 to capital, as a reduction in acquisition costs and £219,000 to revenue, recognised as other property income.

Further detail is contained in note 15.3 of the Financial Statements on page 72.

<sup>A</sup> Alternative Performance Measure, please see pages 83 to 84 for further details.

## Property transactions during the year

There were no property transactions in the year, however, shortly after the year end the Group completed the disposal of a property in Glasgow at a 7.9% premium on the book value at 30 June 2023, as detailed below.



Motorpoint, Birmingham



Unit 14, Provincial Park, Sheffield

## Post balance sheet highlights

# 1.92pps

### Interim dividend for the quarter ended 30 June 2023

On 2 August 2023, the Board approved the interim dividend for the quarter ended 30 June 2023 of 1.92pps. As a result, the dividend target of 5.70pps for the year ended 30 June 2023 was met. The 1.92pps interim dividend included an additional 0.345pps in respect of non-rental income that was received in the year following the successful settlement of a historical legal case. This dividend was paid on 25 August 2023 to shareholders on the register at 11 August 2023. The ex-dividend date was 10 August 2023.

# 100%

### of rent collected by September 2023

By 29 September 2023, the Group had collected 100% of rent due for the four rental quarters of the financial year being reported.

# £7.5m

### Sale of Mercure Hotel, Glasgow

On 8 August 2023, the Group completed the disposal of Mercure Hotel, Ingram Street, Glasgow to the occupier for £7.5 million, a 7.9% premium on the book value at 30 June 2023. The Board intends to reinvest the net proceeds from the sale as soon as practical.

# Chairman's Statement

I am pleased to present the annual audited results of Alternative Income REIT plc (the 'Company') together with its subsidiaries (the 'Group') for the financial year ended 30 June 2023.

## Overview

The current UK economic environment with high levels of inflation and interest rates, and low growth plays to the strengths of the Group's resilient portfolio, which is let on long-dated and higher yielding leases with index linked rental increases.

During the period under review the global economy has been impacted by high inflation rates. Central banks have responded by aggressively raising interest rates. In the UK, the Bank of England has increased base rates from 1% in June 2022 to 5.25% currently. In general terms, the impact of these rising interest rates has affected real estate valuations and share prices detrimentally, with a significant downward movement in valuations particularly in the first half of the financial year, although valuations of the Group's portfolio have now stabilised. I am also pleased to report that post year end, the sale of the Group's hotel in Glasgow was achieved at a 7.9% premium to its book value at 30 June 2023.

In summary, the value of the Group's properties showed a fall of £10.9 million to £107.0 million (30 June 2022: £117.9 million), when compared to the previous financial year. The portfolio is expected to perform relatively well during a period of higher inflation, as 97.0% of its rental income is subject to index-linked reviews and 31.0% of this rental income is not subject to any cap. During the financial year, a total of 14 rent reviews took place, which resulted in a combined rental uplift of £346,000, which represents a 4.8% increase on contracted rent across the portfolio.

The Group also benefits from a low overhead base and fixed borrowing costs until October 2025. Together with the active asset management initiatives being undertaken, the Board expects that the portfolio will continue to deliver an attractive yield as a result of its secure and growing rental income.

## Portfolio performance

At 30 June 2023, the Group's property portfolio had a fair value of £107.0 million (2022: £117.9 million). The portfolio had a net initial yield of 6.6% (2022: 5.7%), and a WAULT to the first break of 17.0 years, 18.9 years to expiry (2022: 17.5 years to first break, 19.4 years to expiry).

## Financing

The Group has fully utilised its £41.0 million loan facility with Canada Life Investments throughout the year. The weighted average interest cost of the facility is 3.19% and it is repayable on 20 October 2025. There would be no penalties for repaying the Group's loan facility ahead of maturity, provided the corresponding gilt rate is lower than the contracted rate of interest.

## Dividends and earnings

During this financial year the Group declared four interim dividends meeting the dividend target of 5.70pps, together with an extra 0.345pps declared which represented non-rental income that was received, the majority of this arising from the successful settlement of a historical legal case. This means that the total dividends declared for the year amounted to 6.045pps, representing an increase of 9.9% on the dividends declared in the previous year (2022: total dividends declared of 5.5pps). The increased dividends declared for this year reflect the resilience of the Group's underlying property portfolio and the strength of its quarterly collection of rent due, which remains 100%.

As set out in note 8 to the Consolidated Financial Statements, these dividends were covered by both EPRA Earnings<sup>A</sup> of 6.75pps (2022: 6.27pps), and the Group's Adjusted EPS (representing cash) of 6.43pps (2022: 5.57pps). Note 9 sets out all dividends paid and payable in the year. All dividends were paid as Property Income Distributions ('PIDs').



“  
The Board consider that the portfolio will continue to deliver an attractive yield as a result of its secure and growing rental income.”

**Simon Bennett**  
Chairman



Historically the Board has paid dividends in four equal instalments each financial year. The Board intends to continue with this practice by making dividend payments in November, February, May and August each year. In order to do this, all dividends need to be declared and paid as interim dividends. The Board, however, recognises that this precludes shareholders from having the opportunity to vote on a final dividend. Recognising this, and although not required to do so, resolution 9 in the AGM notice gives shareholders the opportunity to vote on this dividend policy.

### Discount

The discount of the Company's share price to NAV at 30 June 2023 widened to 23.1% from 14.8% at the previous year end. The Board monitors the discount level throughout the year and has the authority to both issue and buy back shares. Although these powers have not been used to date, the Board believes these authorities are important powers for it to have available, if required, and therefore recommends that shareholders vote in favour of their continuance at the forthcoming AGM.

### Property transaction after the year end

Subsequent to the year end, on 8 August 2023, the Company completed the sale of the Mercure City Hotel, Ingram Street, Glasgow, for a total consideration of £7.5 million to the current tenant S Hotels & Resorts (UK) Limited. This property represented 6.5% of the Group's portfolio at 30 June 2023. The disposal represents a 7.9% premium on the book value at that date and a next exit yield of 8.9%. The sale will enable the proceeds to be recycled into one or more properties as the Group seeks to achieve further diversification of the portfolio's tenants and assets.

### Board composition

During the year, I joined the Board as an independent non-executive director and chairman-designate. The previous chairman Alan Sippetts retired at the conclusion of the Company's AGM on 30 November 2022 and I succeeded him. I would like to take this opportunity to thank Alan Sippetts for the significant contribution he made to the Group during his tenure as a director and latterly as chairman.

### AGM

The Company will hold its AGM at 10am on Wednesday 15 November 2023 at The Monument Building, 11 Monument Street, London EC3R 8AF. As usual, the Investment Adviser will give a presentation on the Group prior to the AGM.

I always welcome engagement with shareholders and they should be aware that if they are unable to attend in person, they can submit questions to the Board by emailing the Company Secretary at [cosec@hanwayadvisory.com](mailto:cosec@hanwayadvisory.com) or by writing to me at Alternative Income REIT plc, 1 King William Street, London EC4N 7AF.

### Outlook

The Board remains confident that the Company is well-positioned for the future, with a resilient portfolio well-placed to continue to provide secure, index-linked income with the potential for capital growth.

The Company exceeded its target annual dividend of at least 5.7pps for the year ended 30 June 2023 and the dividends were fully covered by earnings. In the coming financial year, approximately 58.0% of the Group's income will be subject to rent reviews, 45.0% as annual index-linked rent reviews and the remaining 13.0% being periodic five yearly index-linked rent reviews.

I would like to thank my colleagues on the Board, the Investment Adviser, the Company Secretary and our other advisers and service providers, who have provided professional support and services to the Group during this financial year. We have a good team, to whom a large proportion of the Group's success can be attributed.

*S Bennett*

**Simon Bennett**  
Chairman  
29 September 2023

**£107.0m**

Property portfolio value

**£346,000**

Combined rental uplift

**4.8%**

Increase on contracted rent

# Business Model and Strategy

Alternative Income REIT plc is a real estate investment trust listed on the premium segment of the Official List of the Financial Conduct Authority ('FCA') and traded on the Main Market of the London Stock Exchange. As part of its business model and strategy, the Group has maintained and intends to maintain its UK REIT status.

## Investment objective

The investment objective of the Group is to generate a secure and predictable income return, sustainable in real terms, whilst at least maintaining capital values, in real terms, through investment in a diversified portfolio of UK properties, in alternative and specialist sectors.

## Investment policy

In order to achieve the investment objective, the Group invests in freehold and long leasehold properties across the whole spectrum of the UK property sector, but with a focus on alternative and specialist real estate sectors. Examples of alternative and specialist real estate sectors include, but are not limited to, leisure, hotels, healthcare, education, logistics, automotive, supported living and student accommodation.

In the event of a breach of the investment policy or the investment restrictions set out below, the Alternative Investment Fund Manager ('AIFM'), as advised by the Investment Adviser, shall inform the Board upon becoming aware of the same and, if the Board considers the breach to be material, notification will be made to a Regulatory Information Service and the AIFM, as advised by the Investment Adviser, will look to resolve the breach.

Any material change to the investment policy or investment restrictions of the Group may only be made with the prior approval of shareholders.

## Investment strategy

The Group focuses on properties which can deliver a secure income and preserve capital value, with an attractive entry yield. The Group has an emphasis on alternative and specialist property sectors to access the attractive value and capital preservation qualities which such sectors currently offer.

The Group will supplement this core strategy with active asset management initiatives for certain properties.

Subject at all times to the AIFM's (as advised by the Investment Adviser) assessment of their appeal and specific asset investment opportunities, permitted sectors include, but are not limited to the following: Healthcare; Leisure; Hotels and serviced apartments; Education; Automotive; Car parks; Residential; Supported living; Student accommodation; Logistics; Storage; Communications; Supermarkets; and, subject to the limitations on traditional sector exposures below, Offices; Shopping centres; Retail and retail warehouses; and Industrial.

The Group is not permitted to invest in land assets, including development land which does not have a development agreement attached, agriculture or timber.

The focus will be to invest in properties to construct a portfolio with the following minimum targets:

- a WAULT, at the time of investment, in excess of 18 years;
- at least 85% of the gross passing rent will have leases with rent reviews linked to inflation (RPI or CPI) at the time of investment;
- investment in properties which typically have a value, at the time of investment, of between £2 million and £30 million;
- at least 70% of the properties will be in non-traditional sectors;
- less than 30% of the properties will be in the traditional sectors of Retail, Industrial and Offices; and
- over 90% of properties will be freehold or very long leasehold (over 100 years).

Once GAV is £250 million or greater, future investments will be made to target a portfolio with at least 80% of the properties in non-traditional sectors and less than 20% of the properties in traditional sectors.

Whilst each acquisition will be made on a case-by-case basis, it is expected that properties will typically offer the following characteristics:

- existing tenants with strong business fundamentals and profitable operations in those locations;
- depth of tenant/operator demand;
- alternative use value;
- current passing rent close to or below rental value; and
- long-term demand drivers, including demographics, use of technology or built-for-purpose real estate.

The Group may invest in commercial properties or portfolios of commercial property assets which, in addition, include ancillary or secondary utilisations.

The Group does not intend to spend any more than 5% of the NAV in any rolling 12-month period on (a) the refurbishment of previously occupied space within the existing Portfolio, or (b) the refurbishment of new properties acquired with vacant units.

The Group may invest in corporate and other entities that hold property and the Group may also invest in conjunction with third party investors.



## Investment restrictions

### GAV of less than £250 million

Investment in a single property limited to 15% of GAV (measured at the time of investment).

The value of assets in any sub-sector in one geographical region, at the time of investment, shall not exceed 15% of GAV.

The value of assets in any one sector and sub-sector, at the time of investment, shall not exceed 50% of GAV and 25% of GAV respectively.

Exposure to a single tenant covenant will be limited to 15% of GAV.

The Group may commit up to a maximum of 10% of its GAV (measured at the commencement of the project) in development activities.

Investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 5% of Estimated Rental Value ('ERV').

The Group will not invest in other closed-ended investment companies.

### GAV of £250 million or greater

Investment in a single property limited to 10% of GAV (measured at the time of investment).

Investments will be made with a view to reducing the maximum exposure to any sub-sector in one geographical region to 10% of GAV.

If the Group invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 20% of GAV.

The Group will invest and manage its assets with the objective of spreading risk through the above investment restrictions.

When the measure of GAV is used to calculate the restrictions relating to (i) the value of a single property and (ii) the value of assets in any sub-sector in one geographical region, it will reflect an assumption that the Group has drawdown borrowings such that these borrowings are equal to 30% of GAV.

### Borrowings

The Group has utilised borrowings to enhance returns over the medium term. Borrowings have been utilised on a limited recourse basis for each investment on all or part of the total portfolio and will not exceed 40% of GAV (measured at drawdown) of each relevant investment or of the portfolio.

### Dividend policy

It is the directors' intention to pay dividends in line with the Company's investment objective with interim dividends payable by four instalments quarterly in November, February, May and August in respect of each financial year to June. Additionally, the dividend policy allows for the payment of further interim dividends should compliance with the REIT rules require.



# Key Performance Indicators

## Net Initial Yield ('NIY')

### KPI and definition

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with purchasers' costs estimated by the Group's External Valuers.

### Relevance to strategy

The NIY is an indicator of the ability of the Group to meet its target dividend after adjusting for the impacts of leverage and deducting operating costs.

### Performance

**6.58%**  
at 30 June 2023  
(2022: 5.70%)

## Weighted Average Unexpired Lease Term ('WAULT') to break and expiry

### KPI and definition

The average lease term remaining to expiry across the portfolio, weighted by contracted rent.

### Relevance to strategy

The WAULT is a key measure of the quality of the portfolio. Long leases underpin the security of our future income.

### Performance

**17.0 years to break and 18.9 years to expiry**  
at 30 June 2023  
(2022: 17.5 years to break and 19.4 years to expiry)

## Net Asset Value ('NAV') per share

### KPI and definition

NAV is the value of an entity's assets minus the value of its liabilities.

### Relevance to strategy

Provides stakeholders with the most relevant information on the fair value of the assets and liabilities of the Group.

### Performance

**£67.75 million/  
84.16pps**  
at 30 June 2023  
(2022: £77.60 million/96.40pps)

## Dividend per share

### KPI and definition

Dividends declared in relation to the period are in line with the stated dividend target as set out in the Prospectus at IPO. Having achieved the target dividend of 5.70 pence per Ordinary Share per annum, the aim now is to ensure an increasing dividend in line with the Company's Investment Objective.

### Relevance to strategy

The Group seeks to deliver a sustainable income stream from its portfolio, which it distributes as dividends.

### Performance

**6.045pps**  
for the year ended 30 June 2023  
(2022: 5.50pps)

## Adjusted EPS

### KPI and definition

Adjusted EPS from core operational activities, as adjusted for non-cash items. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. See note 8 to the financial statements.

### Relevance to strategy

This reflects the Group's ability to generate earnings from the portfolio which underpins dividends.

### Performance

**6.43pps**  
for the year ended 30 June 2023  
(2022: 5.57pps)

## Leverage (Loan-to-GAV)

### KPI and definition

The proportion of the Group's assets that is funded by borrowings.

### Relevance to strategy

The Group utilises borrowings to enhance returns over the medium term. Borrowings will not exceed 40% of GAV (measured at drawdown).

### Performance

**36.76%**  
at 30 June 2023  
(2022: 33.69%)

# EPRA Performance Measures

Detailed below is a summary table showing the EPRA performance measures (which are all alternative performance measures) in the Group.

## EPRA NIY<sup>1</sup> – unaudited

### Measure and definition

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

### Purpose

A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of two portfolios compare.

### Performance

**6.58%**

at 30 June 2023  
(2022: 5.70%)

## EPRA 'Topped-up' NIY<sup>1</sup> – unaudited

### Measure and definition

This measure incorporates 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 step rents).

### Purpose

A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of two portfolios compare.

### Performance

**7.08%**

at 30 June 2023  
(2022: 6.41%)

## EPRA NAV<sup>2</sup>

### Measure and definition

Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.

### Purpose

Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a real estate investment company with a long-term investment strategy.

### Performance

**£67.75 million/84.16pps**

at 30 June 2023  
(2022: £77.60 million/96.40pps)

## EPRA Net Reinstatement Value<sup>2</sup>

### Measure and definition

The EPRA NRV adds back the purchasers' costs deducted from the EPRA NAV and deducts the break cost of bank borrowings.

### Purpose

A measure that highlights the value of net assets on a long-term basis.

### Performance

**£74.71 million/  
92.80pps**

at 30 June 2023  
(2022: £84.77 million/105.31pps)

## EPRA Net Tangible Assets<sup>2</sup>

### Measure and definition

The EPRA NTA deducts the break cost of bank borrowings from the EPRA NAV.

### Purpose

A measure that assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability. The Group has UK REIT status and as such no deferred tax is required to be recognised in the accounts.

### Performance

**£67.75 million/  
84.16pps**

at 30 June 2023  
(2022: £77.11 million/95.79pps)

## EPRA Net Disposal Value<sup>2</sup>

### Measure and definition

The EPRA NDV deducts the break cost of bank borrowings from the EPRA NAV.

### Purpose

A measure that shows the shareholder value if assets and liabilities are not held until maturity.

### Performance

**£67.75 million/  
84.16pps**

for the year ended 30 June 2023  
(2022: £77.11 million/95.79pps)

## EPRA Earnings/EPs<sup>2</sup>

### Measure and definition

Earnings from operational activities.

### Purpose

A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

### Performance

**£5.43 million/6.75pps**

for the year ended 30 June 2023  
(2022: £5.05 million/6.27pps)

## EPRA Vacancy<sup>1</sup> – unaudited

### Measure and definition

Estimated Rental Value ('ERV') of vacant space divided by ERV of the whole portfolio.

### Purpose

A 'pure' percentage measure of investment property space that is vacant, based on ERV.

### Performance

**0.00%**

at 30 June 2023  
(2022: 0.00%)

## EPRA Cost Ratio<sup>1</sup> – unaudited

### Measure and definition

Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.

### Purpose

A key measure to enable meaningful measurement of the changes in a company's operating costs.

### Performance

**15.23%**

for the year ended 30 June 2023  
(2022: 13.79%)

EPRA NNAV (the EPRA NAV adjusted to include the fair value of hedging instruments, financial debt and deferred taxes) is equal to EPRA NAV as there are no adjusting items. As such this measure has not been presented.

<sup>1</sup> The reconciliation of this APM is set out in the EPRA Performance Measures Calculations section following the Notes to the Consolidated Financial Statements.

<sup>2</sup> The reconciliation of this APM is set out in note 8 of the Notes to the Consolidated Financial Statements.

# Investment Adviser's Report

The UK and indeed the Global real estate market has been through a challenging period. As predicted in our 2022 Investment Adviser's Report, persistently high inflation, increased debt costs and low consumer confidence are driving the 2023 story.

## Market outlook

### UK economic outlook

After a strong post COVID rebound the UK economy is now more challenging. Output is declining; inflation remains elevated above the long term average, and the labour market is showing signs of weakening. Whilst GDP slowed to 0.2% in Q2 2023, there is a growing belief that the UK may avoid a recession, with an expectation that the economy will slowly recover during 2024.

Businesses and consumers have limited their spending, faced with spiralling prices and high interest rates on loans and mortgages. Retail sales have declined as consumer confidence is hit due to the 'cost of living crisis'. Consequently, businesses are expected to have to cut costs to preserve their margins which are expected to lead to some job losses and higher unemployment in 2023.

The key economic challenge is inflation which, having been in double digits for 15 months and hitting levels not seen since the 1980s of 14.2% (RPI October 2022), has now started to decrease, to 9.1% (RPI August 2023). Higher interest rates, cooling domestic demand and lower wholesale import pricing have started to take effect on the economy and inflation is widely predicted to fall back to more sustainable levels by the end of 2023.

The August 2023 Bank of England base rate increase to 5.25% was the 14th consecutive hike, but they chose to half rates at 5.25% at the September meeting following better than expected falls in inflation indicators. Financial markets expect the base interest rate to rise a little more. This is widely forecast to peak at 5.5% in 2024, but some analysts predict a climb to 5.75%.

The UK economy is expected to return to low level economic growth in 2024, thereby avoiding the long-term scarring of reduced business investment, high long-run unemployment and a permanent decline in key sectors.

### UK real estate outlook

After rising substantially over the last two quarters of 2022, commercial property yields effectively plateaued in early 2023. At that time, core inflation data, on the upside of expectations, caused the market to think again. Some were expecting that the previous 'yield peak' may be an inflection point with some yield softening in the latter half of 2023, others suspected an extended period of relative stability.

Forecasters' predictions for a peak in base rates went through a volatile period in the first half of 2023, ranging from 6.0% to 6.5%. This rate shift from 5.0% is relatively small compared with the near doubling of the cost of debt last year. Investors in a position to take a medium to long-term view, with long-term drawn down facilities at below current debt pricing, may well start taking key assets from leveraged investors. There is still a weight of global capital seeking a home in UK real estate.

The gap between stronger and weaker assets with more vulnerable occupiers is widening. Investment volumes are down, sellers are reluctant to dispose of assets, and new development supply is slowing. Another summer of low activity was expected.

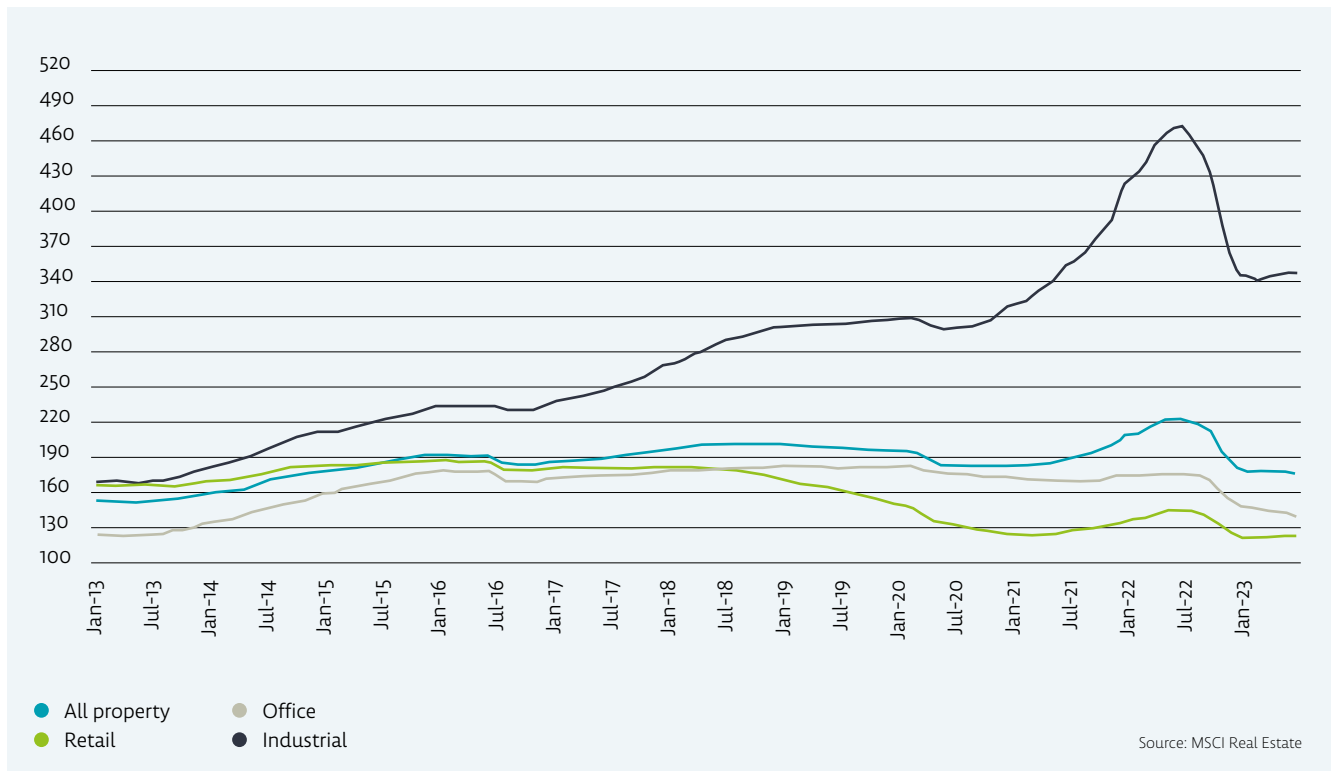
It is income returns, rather than capital growth, which are expected to continue to drive performance in 2023. Business insolvencies, property defaults and consequently void rates are marginally increasing. However, where businesses have requirements there is a focus on quality and sustainability, reducing their occupational overheads and retaining staff. Moreover, the ongoing lack of suitable development supply continues to underpin prime markets particularly in comparison with secondary space.

The MSCI Capital Value Growth Index (June 2023) demonstrates the historical movement in the investment market, showing the rerating in the second half of 2022 and the recent stability. The industrial sector, being the lowest yielding, fell back more dramatically than the other main sectors, when rising inflation and interest rates hit. This sector sits relatively favourably at present, with a significant global weight of capital targeting the sector, despite headwinds for occupiers. Void rates may rise somewhat over the short term, but rental growth is expected to remain positive.

Both investors and occupiers have a renewed focus on the physical climate risk after record temperatures which may be the new norm. Each are developing a better understanding of the value of sustainability features, accurate measurement of 'green' features and the impact of improved energy efficiency on the corporate bottom line. More mandatory disclosure requirements are expected, including net zero transition plans.

## MSCI Captial Value Growth Index

Jan 2014 – Jun 2023



### Portfolio activity during the year

The following asset management initiatives were undertaken during the year:

- Rent Reviews:** A total of 14 rent reviews took place during the year with a combined uplift of £346,000 representing a 4.79% increase in contracted rent across the portfolio.
- Droitwich:** Pets at Home have renewed their lease for a further five years from 14 January 2023 at £113,000 per annum with a nine-month rent free allowance.
- Bramall Court, Salford:** Following an application from the tenant, Mears Group, the Company has agreed to a change of use for the above property from student accommodation to social housing. Following a surrender of the original lease for a 345-bed secondary student accommodation block, a new, institutionally acceptable, social housing lease has been agreed. This incorporates a new undertenant, the Registered Provider, Plexus UK (First Project) Limited, and a 10-year nomination agreement with Salford City Council. Bramall Court is now almost 100% occupied by previously homeless local families, as the 115 flats were recently refurbished by the tenant. The rent, rent review period and lease length are unaltered.

### NAV movements

For the year ended 30 June

	2023		2022	
	Pence per share	£m	Pence per share	£m
NAV at beginning of year	96.40	77.60	85.58	68.89
Change in fair value of investment property	(13.26)	(10.67)	9.97	8.02
Income earned for the year	10.76	8.66	9.81	7.90
Gain on sale of property	–	–	0.12	0.10
Finance costs for the year	(1.77)	(1.43)	(1.77)	(1.42)
Other expenses for the year	(2.24)	(1.80)	(1.77)	(1.43)
Dividends paid during the year	(5.73)	(4.61)	(5.54)	(4.46)
<b>NAV at the end of the year</b>	<b>84.16</b>	<b>67.75</b>	<b>96.40</b>	<b>77.60</b>

### Valuation

At 30 June 2023 the Group owned 19 assets (30 June 2022: 19 assets). The 19 properties held for the year were valued at £107.0 million at 30 June 2023 (30 June 2022: £117.9 million).

## Investment Adviser's Report continued

## Asset location map

at 30 June 2023




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 1. Bramall Court, Salford

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 2. Pocket Nook Industrial Estate, St Helens

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 3. Premier Inn, Camberley

---

 4. Grazebrook Industrial Estate, Dudley

---

 5. Mercure City Hotel, Glasgow

---

 6. Motorpoint, Birmingham

---

 7. Silver Trees, Bristol

---

 8. Prime Life Care Home, Solihull

---

 9. Travelodge, Duke House, Swindon

---

 10. Droitwich Spa Retail Park, Droitwich

---

 11. Hoddesdon Energy, Hoddesdon

---

 12. Prime Life Care Home, Brough

---

 13. Volvo Slough, Slough

---

 14. Unit 2, Dolphin Park, Sittingbourne

---

 15. Applegreen Petrol Station, Crawley

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 16. Pure Gym, London

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 17. YMCA Nursery, Southampton

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 18. Snap Fitness, London

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 19. Unit 14, Provincial Park, Sheffield



**Summary by sector**

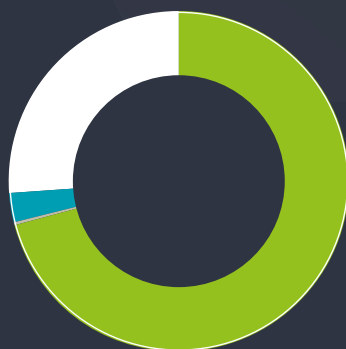
at 30 June 2023

Sector	Number of Properties	Valuation (£m)	Market Value (%)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)	ERV (%)
Industrial	4	24.5	22.9	100.0	23.8	1.7	1.6	22.9
Hotel	3	20.1	18.8	100.0	12.9	1.7	1.4	20.6
Healthcare	3	18.0	16.8	100.0	25.5	1.2	1.1	15.6
Automotive & Petroleum	3	15.0	14.0	100.0	12.9	1.1	1.0	14.0
Residential	1	12.0	11.2	100.0	18.1	0.7	0.7	9.5
Retail	1	5.4	5.1	100.0	6.2	0.3	0.4	5.4
Leisure	2	5.4	5.0	100.0	6.3	0.5	0.4	5.5
Power Station	1	4.8	4.5	100.0	8.7	0.3	0.3	4.7
Education	1	1.8	1.7	100.0	20.6	0.1	0.1	1.8
<b>Total/Average</b>	<b>19</b>	<b>107.0</b>	<b>100.0</b>	<b>100.0</b>	<b>17.0</b>	<b>7.6</b>	<b>7.0</b>	<b>100.0</b>

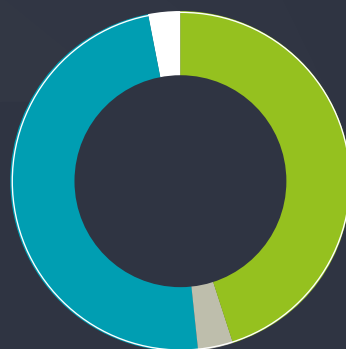
**Summary by geographical area**

at 30 June 2023

Geographical Area	Number of Properties	Valuation (£m)	Market Value (%)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)	ERV (%)
West Midlands	4	26.2	24.5	100.0	12.1	1.8	1.9	26.6
The North West & Merseyside	2	23.3	21.7	100.0	34.4	1.5	1.2	17.5
South East excluding London	5	21.8	20.3	100.0	10.4	1.4	1.4	19.2
South West	2	12.4	11.7	100.0	21.6	0.9	0.8	11.6
Scotland	1	6.9	6.5	100.0	13.2	0.8	0.6	8.7
Yorkshire and the Humber	2	6.2	5.8	100.0	18.6	0.4	0.4	6.2
London	2	5.4	5.0	100.0	6.3	0.5	0.4	5.5
Eastern	1	4.8	4.5	100.0	8.7	0.3	0.3	4.7
<b>Total/Average</b>	<b>19</b>	<b>107.0</b>	<b>100.0</b>	<b>100.0</b>	<b>17.0</b>	<b>7.6</b>	<b>7.0</b>	<b>100.0</b>

**Passing rent by rent review type (%)**

● RPI	<b>71.0%</b>
● OMV	<b>0.2%</b>
● Expiry	<b>2.8%</b>
● CPI	<b>26.0%</b>

**Passing rent by review frequency (%)**

● Annually indexed	<b>45.0%</b>
● 3 yearly indexed	<b>3.4%</b>
● 5 yearly indexed	<b>48.6%</b>
● Remainder	<b>3.0%</b>

**Passing rent by Cap band (%)**

● 3% and above	<b>30.4%</b>
● 4% and above	<b>31.5%</b>
● 5% and above	<b>6.9%</b>
● No Cap	<b>31.2%</b>

The table below illustrates the weighting of the Group's contracted rental income, based on the type of rent review associated with each lease.

**Income Allocation by Type**

Inflation linked – RPI	<b>71.0%</b> (2022: 69.6%)
Inflation linked – CPI	<b>26.0%</b> (2022: 26.3%)
Expiry or Open Market	
Value Reviews	<b>3.0%</b> (2022: 4.1%)

Investment Adviser's Report continued

# Property Portfolio

at 30 June 2023

“

The Board consider that the portfolio will continue to deliver an attractive yield as a result of its secure and growing rental income.”



## 2. Pocket Nook Industrial Estate, St Helens

**Sector**

Industrial

**Region**

North West & Merseyside

**Market value (£m)**

£11.2



## 3. Premier Inn, Camberley

**Sector**

Hotel

**Region**

South East excluding London

**Market value (£m)**

£7.5



## 1. Bramall Court, Salford

**Sector**

Residential

**Region**

North West & Merseyside

**Market value (£m)**

£12.0



## 4. Grazebrook Industrial Estate, Dudley

**Sector**

Industrial

**Region**

West Midlands

**Market value (£m)**

£7.3



## 5. Mercure City Hotel, Glasgow

**Sector**

Hotel

**Region**

Scotland

**Market value (£m)**

£6.9



## 6. Motorpoint, Birmingham

**Sector**

Automotive & Petroleum

**Region**

West Midlands

**Market value (£m)**

£6.9



## 7. Silver Trees, Bristol

### Sector

Healthcare

### Region

South West

### Market value (£m)

£6.8



## 8. Prime Life Care Home, Solihull

### Sector

Healthcare

### Region

Yorkshire and the Humber

### Market value (£m)

£6.7



## 9. Travelodge, Duke House, Swindon

### Sector

Hotel

### Region

South West

### Market value (£m)

£5.6



## 10. Droitwich Spa Retail Park, Droitwich

### Sector

Retail

### Region

West Midlands

### Market value (£m)

£5.4



## 11. Hoddlesdon Energy, Hoddlesdon

### Sector

Power Station

### Region

Eastern

### Market value (£m)

£4.8



## 12. Prime Life Care Home, Brough

### Sector

Healthcare

### Region

Yorkshire and the Humber

### Market value (£m)

£4.4



## 13. Volvo Slough, Slough

### Sector

Automotive & Petroleum

### Region

South East excluding London

### Market value (£m)

£4.3

» continued

## Investment Adviser's Report continued

## Property Portfolio



### 15. Applegreen Petrol Station, Crawley

**Sector**

Automotive &amp; Petroleum

**Region**

South East excluding London

**Market value (£m)**

£3.9



### 18. Snap Fitness, London

**Sector**

Leisure

**Region**

London

**Market value (£m)**

£1.8



### 16. Pure Gym, London

**Sector**

Leisure

**Region**

London

**Market value (£m)**

£3.6



### 19. Unit 14, Provincial Park, Sheffield

**Sector**

Industrial

**Region**

Yorkshire and the Humber

**Market value (£m)**

£1.8



### 14. Unit 2, Dolphin Park, Sittingbourne

**Sector**

Industrial

**Region**

South East excluding London

**Market value (£m)**

£4.2



### 17. YMCA Nursery, Southampton

**Sector**

Education

**Region**

South East excluding London

**Market value (£m)**

£1.9



## Top Ten Tenants at 30 June 2023

Tenants	Property	Annual Contracted Rental Income (£'000)	% of Portfolio Total Passing Rental Income	WAULT to break (Years)
Jupiter Hotels Ltd	Mercure City Hotel, Glasgow	761.0	10.1%	13.2
Meridian Steel Ltd	Grazebrook Industrial Estate, Dudley and Provincial Park, Sheffield	744.3	9.8%	3.9
Mears Group Plc	Bramall Court, Salford	734.6	9.7%	18.1
Prime Life Ltd	Lyndon Croft Care Centre, Solihull and Westerlands Care Village, Brough	728.7	9.6%	25.4
Premier Inn Hotels Ltd	Premier Inn, Camberley	503.5	6.7%	8.7
Motorpoint Ltd	Motorpoint, Birmingham	500.0	6.6%	14.0
Handsale Ltd	Silver Trees, Bristol	455.7	6.0%	25.6
Travelodge Hotels Ltd	Duke House, Swindon	403.1	5.3%	17.9
Hoddesdon Energy Ltd	Hoddesdon Energy, Hoddesdon	332.7	4.4%	8.7
Biffa Waste Services Ltd	Pocket Nook Industrial Estate, St Helens	314.4	4.2%	110.1
<b>Total</b>		<b>5,478.0</b>	<b>72.4%</b>	<b>20.6</b>

## Tenancy Schedule

Tenant	Property	Annual Contracted Rental Income (£'000)	Break Date	Expiry Date
Jupiter Hotels Ltd	Mercure City Hotel	761.0		23/08/2036
Mears Group Plc	Bramall Court	734.6		16/08/2041
Premier Inn Hotels Ltd	Premier Inn	503.5	25/03/2032	24/03/2037
Motorpoint Ltd	Motorpoint	500.0		24/06/2037
Handsale Ltd	Silver Trees	455.7		14/01/2049
Prime Life Ltd	Prime Life Care Home	426.3		21/11/2048
Travelodge Hotels Ltd	Duke House	403.1		31/05/2041
Meridian Steel Ltd	Grazebrook Industrial Estate, Works 1 & 2	361.4		21/05/2027
Hoddesdon Energy Ltd	Hoddesdon Energy	332.7	27/02/2032	26/02/2050
Prime Life Ltd	Prime Life Care Home	302.4		21/11/2048
Pure Gym Ltd	Pure Gym	286.9	11/12/2027	10/12/2032
Volvo Car UK Ltd	Volvo Slough	281.1		16/03/2037
B&M Bargains	Droitwich Spa Retail Park	272.4		31/08/2029
Dore Metal Services Southern Ltd	Unit 2, Dolphin Park	261.8	13/09/2028	12/09/2033
Petrogas Group UK Ltd	Applegreen Petrol Station	255.9		16/07/2033
Meridian Steel Ltd	Grazebrook Industrial Estate, Works 1 & 2	241.3		21/05/2027
Biffa Waste Services Ltd	Pocket Nook Industrial Estate	203.1		24/02/2133
Sec. of State for Communities & Local Government	Pocket Nook Industrial Estate	199.9	30/01/2033	29/01/2048
MSG Life Realty Ltd	Snap Fitness	158.2		28/03/2033
BGEN Ltd	Pocket Nook Industrial Estate	145.0	05/04/2025	04/04/2027
Meridian Steel Ltd	Unit 14, Provincial Park	141.6		21/05/2027
YMCA Fairthorne Group	YMCA Nursery	129.5		17/02/2044
Pets at Home	Droitwich Spa Retail Park	112.5		13/01/2028
Biffa Waste Services Ltd	Pocket Nook Industrial Estate	111.3		31/03/2134
BGEN Ltd	Pocket Nook Industrial Estate	63.8	05/04/2024	04/04/2025
The Salvation Army Trustee Company	Duke House	27.2		17/07/2032
Jupiter Hotels Ltd	Mercure City Hotel (Conference Suite)	20.0		31/08/2036
Kingscrown Land & Commercial Ltd	Pocket Nook Industrial Estate	*		28/09/2045
Camberley Properties Ltd	Premier Inn	*		23/06/3010
Southern Electric Parcel Distribution Plc	Premier Inn	*		20/02/2111
Westlea Housing Association Ltd	Duke House	*		17/09/3006
<b>Total</b>		<b>7,692.2</b>		

\* Ground rents less than £150 per annum.

# Environmental, Social and Governance Report

The Group recognises that Environmental, Social and Governance ('ESG') matters are of utmost importance to sustainable investment and a focus for the business and investor community. The Group is committed to understanding how best to consider ESG factors in all facets of its business, from business strategy to investment decisions and company operations.

In order to meet investors' expectations relating to ESG matters, the Group and its advisers adopt both financial and non-financial strategies to drive long-term value with an innovative yet disciplined and conscientious approach to ESG in respect of the property portfolio management including but not limited to:

## Environmental

- A proactive approach to procurement of Energy Performance Certificate ('EPC') reassessments ahead of Minimum Energy Efficiency Standards 2023, maintaining quarterly reviews of EPC schedules, identification of opportunities to improve energy efficiency, the reduction of greenhouse gas ('GHG') emissions and working closely with tenants who occupy under full repairing and insuring leases.
- Ongoing environmental reviews and audits as part of regular due diligence, including regular asset inspections to avoid any breach in environmental legislation.
- Responsible refurbishment in respect of all works to assets with consideration of the best approach to improving the EPC rating against potential spend, liaising with tenants in respect of any fit-out or alterations to carry out sustainable development and reuse of existing materials where feasible to reduce waste.
- 'Green lease' terms being incorporated into leases where feasible.
- Assets being operated in a manner to reduce overall energy and water consumptions as well as waste production, while maintaining tenant comfort and needs.
- Leverage technology for data management being used to monitor and drive improvement across environmental and social metrics.

## Social

- Commitment to occupier engagement.
- Incorporation of social improvements to each asset such as installing defibrillators & electrical charging points.
- Provision of regular training and awareness to all managers on social issues, such as wellbeing and mental health.

## Governance

- Client checks being completed on all tenants as well as new suppliers and contractors.
- Regular tenant engagement and inspections to ensure assets are used as agreed within leases.
- Effective tracking of legislative requirements to assess and monitor risks and opportunities.

## Diversity

As an externally managed business, the Company does not have any employees or office space. As such, the Group does not operate a diversity policy with regards to any administrative, management and supervisory functions. A description of the Board's policy on director diversity can be found on page 36.

## Employees

The Group has no employees and accordingly no requirement to report separately in this area as the management of the portfolio has been delegated to the AIFM and Investment Adviser.

The AIFM and Investment Adviser are equal opportunities employers who respect and seek to empower each individual and the diverse cultures, perspectives, skills and experiences within their workforce.

## Human rights

The Group is not within the scope of the Modern Slavery Act 2015 because it has not exceeded the turnover threshold and therefore no further disclosure is required in this regard.

## Business relationships

As well as the critical day-to-day portfolio management, the Group has service providers that ensure the smooth running of the Group's activities. The Group's key service providers are listed on page 88, and the Management Engagement Committee annually review the effectiveness and performance of these service providers, taking into account any feedback received.

The Group, AIFM and Investment Adviser and other third-party service providers maintain high standards of business conduct by acting in a collaborative and responsible manner with all business partners that protects the reputation of the Group as a whole.

## Greenhouse gas emissions

As an investment company, the Group's own direct environmental impact is minimal and greenhouse gas ('GHG') emissions are negligible, and as such the Company has not introduced measures to achieve energy efficiency. Information on the GHG emissions in relation to the Group's property portfolio is disclosed on pages 20 to 21.

The Group has followed UK Government environmental reporting guidelines and used the UK Government 2023 greenhouse gas reporting conversion factors for company reporting to identify and report relevant GHG emissions over which it has Operational Control (where data is available) for the 12-month period to 30 June 2023.

An independent consultancy specialising in the application of sustainability in commercial real estate was appointed to calculate the GHG statement and provide verification on the approach used.

## Scopes

GHG emissions have been reported against the following 'Scopes', as defined by the GHG Protocol and where relevant:

**Scope 1** (not relevant to AIRE): Direct emissions from owned vehicles, controlled boilers and fugitive emissions from air conditioning systems under landlord control.



**Scope 2:** Indirect emissions from electricity purchased by the Company and consumed within real estate assets owned by the Company.

**Scope 3:** Indirect emissions from electricity and gas purchased/consumed within AIRE assets, by tenants, where the tenant is counterparty to the energy supply.

### Statement of GHG emissions

The table below sets out the emissions per sector and for the Group overall in the year ended 30 June 2023. The approach taken follows guidance provided by the GHG Reporting Guidelines (BEIS, 2019) and EPRA Best Practice Recommendations of Sustainability Reporting 2017.

Sector	Scope	Absolute tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e)		Like-for-like comparison of carbon dioxide equivalent (tCO <sub>2</sub> e)*	
		2022/23	2021/22	Difference (tCO <sub>2</sub> e)	% change
Retail park	Scope 2	0.13	1.44	-1.31	-91%
Industrial warehouse	Scope 3 – Elec.	93.71	82.21	11.5	14%
<b>Total</b>	<b>Scope 2 &amp; 3</b>	<b>93.84</b>	<b>83.65</b>	<b>10.19</b>	<b>12%</b>

\*Like-for-like requires 24 months of data for the current and previous reporting year (July 2021 – June 2023). Both assets provided 24 months of data therefore like-for-like calculations were possible.

### Statement of energy usage

The table below sets out the energy use per sector and for the Group overall. The approach follows guidance provided by the GHG Reporting Guidelines (BEIS, 2019) and the EPRA Best Practice Recommendations on Sustainability Reporting 2017.

Sector	Energy Source	Absolute energy usage (kWh)		Like-for-like energy usage (kWh)	
		2022/23	2021/22	Difference (kWh)	% change
Retail park	Electricity	646	7,454	-6,809	-91%
Industrial warehouse	Electricity	452,531	425,106	27,425	6%
<b>Total</b>	<b>Electricity</b>	<b>453,177</b>	<b>432,560</b>	<b>20,616</b>	<b>5%</b>

### Intensity ratios

In addition to reporting relevant absolute GHG emissions (per scope and per sector), the Group has chosen to report intensity ratios, where appropriate. An intensity measure is reported for assets within the like-for-like portfolio, where:

- No major renovation or refurbishment has taken place i.e. affecting more than 50% of the building by area or number of occupants
- Occupancy is at least 75%
- At least 24 months data is available
- Emissions reported relate to an indoor area

Whilst no landlord meters reflect the above criteria for an intensity metric, the Group has applied an intensity figure for one asset, Pocket Nook, where the landlord procures the energy and directly recharges this to the tenant. An intensity metric has not been produced for Droitwich Spa retail park on the basis that the landlord-controlled meter does not reflect the above criteria (emissions reported relate to an indoor area).

No normalisation factors have been considered for this annual report.

### Assurance statement

The Group's GHG emissions have been calculated and verified by an independent third-party in accordance with the principles of ISO 14064. A full copy of the methodology used, including scope, source or data and conversion factors, is available on request.

### Property portfolio ESG activity

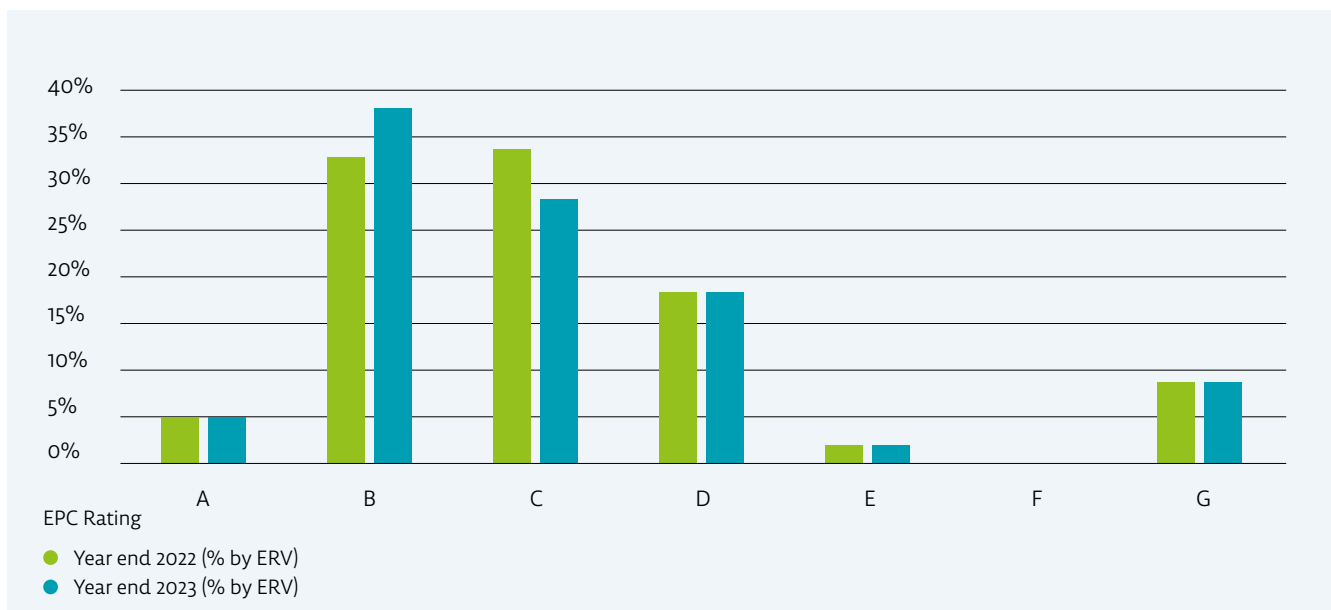
During the year ended 30 June 2023, the Group has worked closely with its tenants to encourage and facilitate improvements in ESG activities within the property portfolio.

Two new EPCs have been carried out; Motorpoint, Birmingham improved from C75 to C62; Travelodge Hotel, Swindon improved from C62 to B42. These improvements are mainly as a result of tenant's internal refurbishment works.

Following inspections by EPC assessors, works have been identified at six properties to improve EPC levels in the year to 30 June 2024 including new LED lighting, replacement of an oil-fired boiler, solar panels and installation of secondary glazing. The costs of these enhancements will be borne by the occupiers.

Future projects are being developed with three other occupiers.

### Year-on-Year EPC Comparison



In the histogram above, the highest EPC rating of G applies to the Mercure Hotel, Glasgow. This property was sold subsequent to the year end. The remaining properties in the portfolio have an EPC rating of E or above with the majority, 72% based on the remaining 18 properties, falling within B and C.

# Section 172(1) Statement

The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, in promoting the success of the Company for the benefit of members as a whole.

This section describes how the Board has regard to the likely consequences of any decision in the long term, the need to foster the Company's business relationships with suppliers, customers and others, the desirability of the Company maintaining a reputation for high standards of business conduct, and the need to act fairly as between members of the Company. The Company does not have any employees and therefore s172(1)(b) is not applicable to the Company. The impact of the Company's operations on the community and the environment is set out more fully in the Environmental, Social and Governance section on pages 20 to 21.

Stakeholder	Issues of importance	Engagement	Effect of engagement on key decisions
<p><b>Shareholders</b> The Group's investment objective is to deliver an attractive total return to shareholders. Shareholders are directly impacted by changes to the Company's NAV and thus the share price and dividends.</p>	<ul style="list-style-type: none"> <li>Attractive and sustainable level of income, earnings and dividends.</li> <li>Long-term income stream linked to inflationary growth.</li> <li>Robust corporate governance structure and well-performing service providers.</li> <li>Strategic direction of the Company.</li> <li>Execution of investment objective.</li> <li>Value for money – low ongoing charges.</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder engagement is set out on page 37.</li> <li>As a publicly listed Company, the Company is subject to Listing Rules and other regulatory disclosure requirements which the Board abides by with the assistance of the Company Secretary and Corporate Broker.</li> </ul>	<p>The effect of shareholder engagement has fed into each aspect of the Board's decision-making. The total aggregate dividends for the year have increased compared to the prior year and the Board has also worked to keep expenses under control.</p>
<p><b>Service Providers</b> As an externally managed REIT, the Company conducts all its business through its service providers, the key ones being the Investment Adviser, Property Manager, Company Secretary, AIFM, depositary and corporate broker.</p>	<ul style="list-style-type: none"> <li>Reputation of the Company and maintaining high standards of business conduct.</li> <li>Productive working relationships with the Company.</li> <li>Fair and transparent service agreements.</li> <li>Collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>Effective and consistent engagement both through formal Board meetings and regularly outside the meetings.</li> <li>Annual evaluation of key service providers.</li> <li>Culture set by the Board and communicated to all providers.</li> </ul>	<p>Clear and effective strategic oversight and culture by the Board has been crucial to enhancing the effectiveness of the Company's key service providers. The Board has worked closely with its service providers to maintain and continually improve processes and to ensure that the Company's values are aligned with them.</p>
<p><b>Tenants</b> Tenants with strong business fundamentals and profitable operations are one of the key components to ensure a consistent income stream and ability to pay dividends to the Company's shareholders.</p>	<ul style="list-style-type: none"> <li>Positive working relationship with the Board, Investment Adviser and Property Manager.</li> <li>Rent reviews.</li> <li>Fair lease terms.</li> <li>Long-term strategy and alignment with the tenant's business operations.</li> <li>Financial stability of tenants.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure the Investment Adviser and Property Manager generate and foster good relationships with the tenants.</li> <li>Focus on asset management initiatives to assist the tenants where applicable.</li> </ul>	<p>There is regular contact between the Property Manager and all the Group's tenants. Rent reviews have all been completed on time and collection of rent at 100% is indicative of good tenant relations.</p> <p>Positive engagement is also reflected in the Investment Adviser's successful working with tenants for EPC and ESG improvements (see ESG report).</p>

Stakeholder	Issues of importance	Engagement	Effect of engagement on key decisions
<b>Debt provider</b> The Group maintains a positive working relationship with its debt provider, Canada Life.	<ul style="list-style-type: none"> <li>Compliance with loan covenants.</li> <li>Responsible portfolio management.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing engagement by the Investment Adviser throughout the year and by the Board if required.</li> </ul>	In addition to the Investment Adviser regular contact, the chairman engaged directly with Canada Life post year end to ensure good communications are established and obtained helpful lender feedback prior to the maturing of the loan in 2025.
<b>Society and the environment</b> As an investor in real estate, the Company's assets have an impact on the built environment. Environmental, Social and Governance ('ESG') factors increasingly apply alongside of financial returns.	<ul style="list-style-type: none"> <li>Responsible investing together with sustainability.</li> <li>Long-term strategy to take account of ESG considerations without negatively impacting financial returns.</li> </ul>	<ul style="list-style-type: none"> <li>Starting regular engagement with tenants in respect of EPC requirements.</li> <li>Ensuring shareholder engagement covers ESG.</li> </ul>	The Board has encouraged both the Investment Adviser and Property Manager to consider ESG on investment and on an ongoing basis.

### Principal decisions

Principal decisions are those that have a material impact to the Group and its key stakeholders. In taking these decisions, the directors considered their duties under section 172 of the Act.

### Directorate changes

During the year, the Board welcomed Simon Bennett as an independent non-executive director and chairman-designate on 10 November 2022, with the search process supported by an independent recruitment consultant. Following this on 30 November 2022, Alan Sippetts retired as an independent non-executive director with Simon Bennett succeeding him as chairman on the same date. In taking this decision, the Board considered that Simon Bennett's skills and experience were suitable for the role and would complement the skills and experience of the existing Board members.

### Dividend and dividend policy

The dividend target of 5.70pps for the year ended 30 June 2023 was met. The Board also agreed to distribute to shareholders an extra 0.345pps in respect of non-rental income that had been received in the year. This brings the total dividends for the year to 6.045pps, an increase of 9.9% on the 5.50pps declared for the prior year.

As last year, the Board paid four interim dividends at quarterly intervals to ensure shareholders received a steady stream of income on a timely basis. However, this dividend policy prevents there being an opportunity for shareholders to vote on a final dividend. Consequently, the Board are again giving shareholders the opportunity to vote on the dividend policy of the Company.

### Settlement of litigation

The Group received £825,000 during the year, in full and final settlement of litigation to recover costs incurred on work to replace defective cladding on the Travelodge Hotel, Swindon. Please refer to note 15.3 for further details. The Board were heavily involved in the litigation process and were focused on ensuring an outcome which was in the best interests of the Company, its shareholders and all stakeholders.

### Property transactions

On 8 August 2023 the Group completed the disposal of Mercure Hotel, Ingram Street, Glasgow to the occupier for £7.5 million, a £550,000 (7.9%) premium on the book value at 30 June 2023. The net proceeds from the sale will be reinvested. In consideration of the disposal of this property, the interests of shareholders had been taken into account by achieving a premium on the book value of the asset alongside providing the Company with cash to take advantage of beneficial opportunities for reinvestment.

# Principal Risks and Uncertainties

The Group’s assets consist of UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the individual properties and the tenants within the properties.

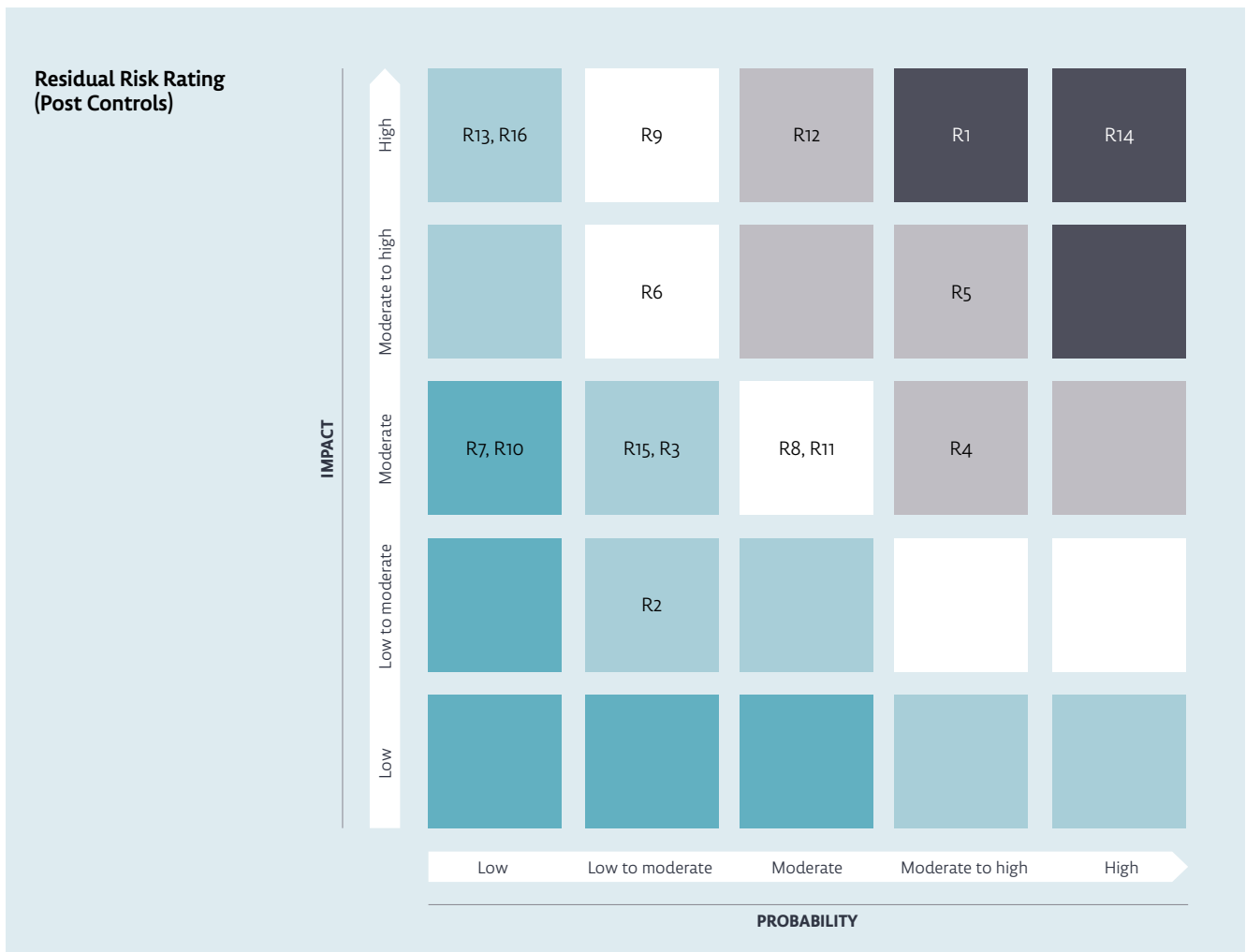
The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the AIFM and, where appropriate, the Investment Adviser. The Group’s ongoing risk management process is designed to identify, evaluate and mitigate the risks the Group faces.

Twice each year the Board, assisted by the Audit Committee, undertakes a risk review to assess the adequacy and effectiveness of the AIFM’s, and where appropriate the Investment Adviser’s, risk management and internal control systems. In addition, during the year the Audit Committee implemented improvements to the Company’s approach to risk management detail on this is provided on page 37 of this report.

The Board has carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

An analysis of the principal risks and uncertainties is set out in the table below. This does not purport to be exhaustive as some risks are not yet known and some risks are currently not deemed material but could turn out to be material in the future.

Risk matrix at 30 June 2023



Principal risks and their potential impact	How risk is managed	Risk assessment
<b>Real estate risks</b>		
<p><b>1. Tenant default</b> Failure by tenants to comply with their rental obligations could affect the income that the properties earn and the ability of the Group to pay dividends to its shareholders.</p> <p>Macroeconomic trends discussed through the report, including rising interest rates, higher inflation and the possibility of recession have the ability to materially impact on a tenant's business. This could result in tenants being unable to comply with their rental obligations.</p>	<p>The investment policy limits the exposure to any one tenant to 15% of Gross Asset Value. The maximum exposure to any one tenant (calculated by GAV) is 10.8% at 30 June 2023. The Group benefits from a balanced portfolio with a diversified tenant base and is therefore not reliant on a single tenant or sector.</p> <p>In the due diligence process prior to acquiring a property, covenant checks are carried out on tenants which are repeated on a regular basis.</p> <p>The Investment Adviser and Property Manager conduct ongoing monitoring and liaison with tenants to manage potential bad debt risk.</p>	<p><b>Probability:</b> Moderate to high</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> No change. However, the impact of different factors have changed the inflation/interest rate/cost pressures on tenants from the previous COVID/Market volatility pressures.</p>
<p><b>2. Portfolio concentration</b> Any downturn in the UK and its economy or regulatory changes in the UK could have a material adverse effect on the Group's operations or financial condition. Greater concentration of investments in any sector or exposure to the creditworthiness of any one tenant or tenants may lead to greater volatility in the value of the Group's investments, NAV and the Company's share price.</p>	<p>The Group has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.</p> <p>Having a diversified portfolio in respect of both sector and tenants provides reduced potential volatility in the portfolio and the impact rating for this risk is accordingly set at low to moderate.</p>	<p><b>Probability:</b> Low to moderate</p> <p><b>Impact:</b> Low to moderate</p> <p><b>Movement:</b> No change</p>
<p><b>3. Property defects</b> Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental, structural or operational defects) that may lead to a material adverse effect on the Group's profitability, the NAV and the Company's share price.</p>	<p>The Group's due diligence relies on the work (such as legal reports on title, property valuations, environmental, building surveys) outsourced to third parties that have appropriate Professional Indemnity cover in place.</p>	<p><b>Probability:</b> Low to Moderate</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> Probability decreased</p> <p>The Investment Adviser has comprehensive due diligence processes in place. In addition, the Investment Adviser now has an in depth knowledge of all the properties that were in portfolio on their appointment.</p>
<p><b>4. Rate of inflation</b> Rent review provisions may have contractual limits to the increases that may be made as a result of the rate of inflation. If inflation is in excess of such contractual limits, the Group may not be able to deliver targeted returns to shareholders.</p>	<p>The inflation linked (RPI/CPI) leases in the portfolio have contractual rent review collars, with the lowest floor being 0%, and caps that range from 3% to no cap. The majority of caps are in excess of RPI and CPI forecasts during the next five-year rent review cycle and therefore based on forecasts.</p> <p>The risk of inflation is somewhat mitigated by the leases that have no cap. In addition, a total of eight leases undergo reviews annually which will allow inflation changes to be reflected expeditiously.</p>	<p><b>Probability:</b> Moderate to High</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> Probability increased</p> <p>The rate of inflation has continued to increase significantly in the past year. This has increased the possibility of caps limiting the level of rent increases.</p>
<p><b>5. Property market</b> Any recession or future deterioration in the property market could, inter alia, (i) lead to an increase in tenant defaults, (ii) make it difficult to attract new tenants for its properties, (iii) lead to a lack of finance available to the Group, (iv) cause the Group to realise its investments at lower valuations; and (v) delay the timings of the Group's realisations.</p> <p>Any of these factors could have a material adverse effect on the ability of the Group to achieve its investment objective.</p>	<p>The Group has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.</p> <p>Most of the leases provide a relatively long unexpired term and contain upward only rent reviews which are linked to either RPI or CPI. Because of these factors, the Group expects that the assets will show less volatile valuation movement over the long term.</p>	<p><b>Probability:</b> Moderate to high</p> <p><b>Impact:</b> Moderate to high</p> <p><b>Movement:</b> No change</p>

## Principal Risks and Uncertainties continued

Principal risks and their potential impact	How risk is managed	Risk assessment
<p><b>6. Property valuation</b> Property is inherently difficult to value due to the individual nature of each property.</p> <p>There may be an adverse effect on the Group's profitability, the NAV and the Company's share price in cases where properties are sold whose valuations have previously been materially overstated.</p>	<p>The Group uses an independent valuer (Knight Frank LLP) to value the properties on a quarterly basis at fair value in accordance with accepted RICS appraisal and valuation standards.</p>	<p><b>Probability:</b> Low to moderate</p> <p><b>Impact:</b> Moderate to high</p> <p><b>Movement:</b> No change</p>
<p><b>7. Investments are illiquid</b> The Group invests in commercial properties. Such investments are illiquid; they may be difficult for the Group to sell and the price achieved on any realisation may be at a discount to the prevailing valuation of the relevant property.</p>	<p>The Group aims to hold the properties for long-term income and all property investment/disinvestment is managed carefully to ensure there is no undue pressure on cash flow that would require a quick sale of assets.</p> <p>The Company's dividend is funded from net revenue and is not affected by the portfolio's (i)liquidity.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> Probability decreased</p> <p>Turnover in the portfolio is, and is expected to remain, limited; therefore, the probability of this risk materialising has been changed to low.</p>
<p><b>8. Environment</b> The Group is subject to environmental regulations. In addition to regulatory risk, there is a growing importance being placed on ESG credentials by tenants, which could lead to difficulty in letting vacant space.</p> <p>Properties could be impacted by extreme environment events such as flooding. Climate change could accelerate more quickly leading to adverse physical impacts as well as regulatory change.</p> <p>Failure by the Group to meet current or future environmental targets could result in penalties, increased costs, a reduction in asset values and have an adverse effect on the Company's reputation, leading to loss of good quality tenants.</p>	<p>The current regulations require annual mandatory Green House Gas (GHG) reporting, which will be carried out as part of the annual report and will result in minimal expenditure for the Group.</p> <p>Furthermore, the Investment Adviser has prepared an ESG strategy to ensure it meets legal requirements and remains attractive to current and future tenants. Please see the 'Environmental, Social and Governance' section for further information.</p> <p>In depth research is undertaken on each property at acquisition. The Investment Adviser has adopted an environmental policy which it is in the process of applying to all properties within the portfolio.</p>	<p><b>Probability:</b> Moderate</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>



Principal risks and their potential impact	How risk is managed	Risk assessment
<b>Borrowing risks</b>		
<p><b>9. Breach of borrowing covenants</b> The Group has entered into a fixed term loan facility, maturing October 2025.</p> <p>Material adverse changes in valuations and net income may lead to breaches in the LTV and interest cover ratio covenants.</p> <p>If the Group is unable to operate within its debt covenants, this could lead to default and the loan facility being recalled. This could result in the Group being forced to sell properties to repay the loan facility, possibly resulting in a substantial fall in the NAV.</p>	<p>The Group monitors the borrowing covenants on a regular ongoing basis by cash flow forecasting, quarterly risk reports and a quarterly compliance certificate.</p> <p>The Group's gearing at 30 June 2023 was 36.8%, below the maximum gearing (on a GAV basis on drawdown) of 40% and materially below the covenant's default LTV of 60%. On the same date the Group's interest rate calculation (ICR) was 614.5%, materially above the covenant default ICR of 250%.</p> <p>Borrowing is carefully monitored by the Group, and action will be taken to conserve cash where necessary to ensure that this risk is mitigated.</p> <p>It is ensured that there is significant headroom in the LTV and interest cover covenants as part of the monitoring process.</p> <p>Diversification of both the portfolio and tenants limit the risk to the Group of any one geographic or sector property event and any one tenant default.</p>	<p><b>Probability:</b> Low to moderate</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> Probability increased</p> <p>Increase is the result of:</p> <ul style="list-style-type: none"> <li>the likelihood that future borrowings will be at a higher interest rate;</li> <li>to reflect the volatility in interest rates compared to when the initial borrowings were negotiated; and</li> <li>the decreasing timescale to the maturity of the current loan facility.</li> </ul>
<b>Corporate risks</b>		
<p><b>10. Failure of service providers</b> The Group has no employees and is reliant upon the performance of third-party service providers.</p> <p>Failure by any service provider to carry out its obligations to the Group in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Group.</p> <p>Should the Group pursue litigation against service providers, there is a risk that the Company may incur costs that are irrecoverable if litigation is unsuccessful.</p>	<p>The Board meets regularly with, and monitors, all of its key service providers, including the Investment Adviser. The Management Engagement Committee (MEC) reviews annually the performance of key service providers in conjunction with their service level agreements, and makes use of Key Performance Indicators where relevant.</p> <p>In addition, the Audit Committee's robust and ongoing review of risk management and internal controls covers key service providers.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> Probability and impact decreased</p> <p>Strengthening of the Board's oversight of its service providers (via the MEC and audit committee) which in turn has confirmed the continued strong performance of the Group's service providers.</p>
<p><b>11. Dependence on the Investment Adviser</b> The future ability of the Group to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the service providers to retain its existing staff and/or to recruit individuals of similar experience and calibre, and effectively carry out its services.</p> <p>The Group relies on the Investment Adviser to manage the assets and termination of the Investment Adviser agreement could severely affect the Group's ability to effectively manage its operations.</p>	<p>The MEC performs a formal annual review of the Investment Adviser which covers the performance of the portfolio (both capital and income returns) and the performance of and engagement with the M7's fund manager and other supporting staff.</p> <p>In addition, the Board meets regularly with M7 and directors engage with them not only in Board meetings but also by email, telephone and ad hoc meetings. This helps to maintain a good working relationship.</p> <p>The dependence on the M7 is managed through segregating the roles of AIFM and Investment Adviser.</p>	<p><b>Probability:</b> Moderate</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>

## Principal Risks and Uncertainties continued

Principal risks and their potential impact	How risk is managed	Risk assessment
<p><b>12. Ability to meet objectives</b> The Group may not meet its investment objective to generate a secure and predictable income, that is sustainable in real terms, and at least maintain capital values in real terms, from investing predominantly in a portfolio of smaller commercial properties in the UK.</p> <p>Poor relative total return performance may lead to an adverse reputational impact that affects the Group's ability to raise new capital and new funds. Inability to obtain new borrowings – of the amount required and at acceptable terms and rate(s) – on maturity of the current £41 million loan facility in 2025, will be detrimental to the dividend return for shareholders. Also disposal of several properties to repay borrowings.</p>	<p>The Group has an investment policy to achieve a balanced portfolio with a diversified tenant base. This is reviewed by the Board at each scheduled Board meeting.</p> <p>The Group's property portfolio has a WAULT to break of 17.0 years and a WAULT to expiry of 18.9 years. Further, over 97.0% of leases have inflation-linked upwards only rent reviews, representing a secure income stream on which to deliver attractive total returns to shareholders.</p> <p>The maturity of the loan facility is a standing item on the Board agenda, and regular discussions are held with the Investment Adviser and other advisers to the Board concerning the make-up, amount etc of any additional or future borrowings.</p>	<p><b>Probability:</b> Moderate</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> Probability increased</p> <p>The ability to ensure the real terms aspect of the objective will likely be impacted by refinancing being considerably more expensive than the current facility. And/or the possibility that the Group cannot obtain the required amount of £41 million borrowings from an acceptable lender on acceptable terms.</p>
<b>Taxation risk</b>		
<p><b>13. Group REIT status</b> The Group has UK REIT status that provides a tax-efficient corporate structure.</p> <p>If the Group fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK corporation tax.</p>	<p>The Company monitors REIT compliance through the Investment Adviser and Administrator on acquisitions and disposals and distribution levels; the Registrar and Broker on shareholdings; and third-party tax advisers to monitor REIT compliance requirements.</p> <p>Processes are in place to ensure ongoing compliance with REIT regulations.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> No change</p>
<b>Political/economic risk</b>		
<p><b>14. Political and macroeconomic events</b> Such events present risks to the real estate and financial markets that affect the Group and the business of the tenants.</p> <p>The negative economic effects from the deterioration of the global economy, higher inflation and interest rates, the ongoing long-term effects of the Russia-Ukraine war and secondary effects from COVID including supply constraints could impact the portfolio, tenants and the ability of the Group to raise capital.</p>	<p>The Group only invests in UK properties with strong alternative use values and long leases, so the portfolio is well positioned to withstand an economic downturn. Tenant default risk arising from political and macroeconomic events is managed as described above.</p> <p>The Investment Adviser monitors both the macro and micro economy with special attention to those factors potentially impacting the Group, and reports to the Board on a regular basis.</p>	<p><b>Probability:</b> High</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> No change</p>

Principal risks and their potential impact	How risk is managed	Risk assessment
<b>Regulatory risk</b>		
<p><b>15. Disclosure risk</b> Failure to properly disclose information to investors or regulators in accordance with various disclosure rules and regulations. Examples include AIFMD investor disclosures, annual reporting requirements, marketing/promotion disclaimers, data protection regulations etc.</p>	<p>Service providers including AIFM, Investment Adviser, Company Secretary, auditor, and corporate broker monitor disclosure obligations and liaise with the Board to ensure requirements are met.</p>	<p><b>Probability:</b> Low to moderate</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>
<p><b>16. Regulatory change</b> New regulations or changes to existing regulations (particularly in relation to climate change) could result in sub-optimal performance of the Group or, in worst case, inability to continue as a viable business.</p>	<p>The Board receives regular updates on relevant regulatory changes (and prospective changes) from its professional advisers.</p> <p>The Investment Adviser monitors the impact of emerging legislation across all aspects of property investment and ESG has a particularly high profile at this time. The Investment Adviser uses an ESG pre-acquisition checklist to review purchases and also to ensure that the current portfolio is monitored, and that works are carried out as appropriate, with tenant's agreement, to prevent asset depreciation.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> High</p> <p><b>Movement:</b> No change</p>

### Emerging risks

The Board take account of and consider emerging risks as part of its risk management assessment.



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# Going Concern

## The Group has considered its cash flows, financial position, liquidity position and borrowing facilities.

The Group's unrestricted cash balance at the year end was £3.5 million (2022: £2.5 million). The Group borrowings totalled £41 million under a loan facility repayable on 20 October 2025 (the 'Loan'). The Group is permitted to utilise up to 40% of GAV measured at drawdown with a Loan to GAV of 36.8% at 30 June 2023. Therefore, the Group had headroom against its borrowing covenant. The lender's loan to value covenant of 60% is significantly higher than the Group's Loan to GAV. Lastly, if agreed by the current lender, two properties not secured against the loan and valued at £8.73 million are available as additional security for the Loan.

The Loan also has a lender's interest cover covenant of 250%. At 30 June 2023 the Group's interest cover ratio was 614.50%, giving significant headroom. A 'severe but plausible downside' scenario has also been projected. While rent collections have been strong, this scenario projects rent deferrals and write-offs for tenants with difficulty paying rents from operational cash flows. In this scenario the Group still has adequate headroom against the interest cover covenant and positive cash balances. Further detail of the assumptions made in assessing the adaption of Group's going concern basis can be found in note 2.4.

The Group benefits from a secure, diversified income stream from leases which are not overly reliant on any one tenant or sector. As a result, the directors believe that the Group is well placed to manage its financing and other business risks.

The Board is satisfied that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of these financial statements. The Board is, therefore, of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

# Viability Statement

In accordance with provision 30 of the UK Code, the directors have assessed the prospects of the Group over a period longer than the 12 months required by the 'Going Concern' provisions.

The Board has considered the nature of the Group's assets and liabilities and associated cash flows and has determined that three years, up to 30 June 2026, is a realistic timescale over which the performance of the Group can be forecast with a degree of accuracy and so is an appropriate period over which to consider the Group's viability.

## Considerations in support of the Group's viability over this three-year period include:

1. The current unexpired term under the Group's debt facilities stands at just over two years. The Board has no reason to believe that the Group cannot refinance its debt in October 2025.
2. The Group's property portfolio had a WAULT to break of 17.0 years and a WAULT to expiry of 18.9 years at 30 June 2023, representing a secure income stream for the period under consideration.
3. A major proportion of the leases contain an annual, three or five-year rent review pattern and therefore three years allows for the forecasts to include the reversion arising from most rent reviews.

The three-year review considers the Group's cash flows, future dividends and dividend cover, REIT compliance and relevant key financial ratios over the period. In assessing the Company's viability, the Board has carried out a thorough review of the Group's business model, including future performance, liquidity and banking covenant tests for a three-year period. The Board has assessed the extent of any operational disruption; potential curtailment of rental receipts; potential liquidity and working capital shortfalls; and diminished demand for the Group's assets going forward, in adopting a going concern preparation basis and in assessing the Group's longer-term viability.

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

- Tenant default;
- Dividend payments;
- Refinancing terms; and
- Property portfolio valuation movements.

Based on the prudent assumptions within the Group's forecasts regarding rent deferrals, tenant default, void rates and property valuation movements, the directors expect that over the three year period of their assessment:

- LTV covenants will not be breached – at 30 June 2023, the asset valuations and rental income of the properties secured to Canada Life would need to fall by 16.7% and 46.3% respectively before breaching the Loan to Value and Income Cover Cash Trap covenants;
- REIT tests are complied with; and
- That the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

## Board Approval of the Strategic Report

The Strategic Report has been approved and signed on behalf of the Board by:



**Simon Bennett**  
Chairman  
29 September 2023

# Corporate Governance

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# Board of Directors



**Simon Bennett**  
Independent non-executive chairman  
Appointed 10 November 2022

Simon is a chartered accountant with extensive experience of providing strategic, financial and other advice to growing companies. He has worked for a number of the world's largest banks and has wide-ranging experience of both the international debt and equity markets. He was Head of Corporate Finance and Head of mid and small caps teams at Credit Lyonnais Securities (now Credit Agricole), as well as head of Corporate Broking at Fairfax IS plc and Sanlam Securities.

Simon is chair of Acuity RM Group plc (previously Drumz plc), the AIM-listed technology investment company, where he is audit chair and is a non-executive director of Kwalee Ltd, the developer and publisher of games for digital distribution, where he is also audit chair. Simon is the principal partner of Incremental Capital LLP, which he founded in 2004 to provide corporate finance advice to mid and small cap and growing companies.

The Board considers that Simon Bennett brings a wide-ranging set of skills and experience to the Board, in particular experience as a non-executive director and chairman as well as investment and capital market knowledge.



**Stephanie Eastment**  
Independent non-executive director  
Appointed 1 October 2021

Stephanie is an independent non-executive director and audit chair of Murray Income Trust plc, Herald Investment Trust plc and Impax Environmental Markets plc, and an independent non-executive director of RBS Collective Investments Funds Limited. She is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of The Chartered Governance Institute and a member of the Technical Committee of the Association of Investment Companies. Previously Stephanie was Head of Specialist Funds Company Secretariat and Accounts at Invesco Perpetual, where she had worked since 1996 specialising in the asset management industry with particular focus on investment trusts. Her career spans over 30 years working in financial services including roles at UBS, Wardley Investment Services International and KPMG.

The Board considers that Stephanie Eastment brings considerable investment company and risk/audit expertise and knowledge to the Board, especially in her role as audit committee chair.



**Adam Smith**  
Non-executive director  
Appointed 8 March 2021

Adam is currently a director of Glenstone Property plc listed on The International Stock Exchange (TISE) in Guernsey and is a public limited company incorporated in England & Wales which qualifies as a UK real estate investment trust. Prior to this he was appointed managing director of the London and Surrey group of companies and in 2016, he initiated and successfully completed the merger of these companies with Glenstone Property plc. Formerly an investment and leasing agent with Edwin Hill Chartered Surveyors (now Altus Group), he is a professional member of the Royal Institution of Chartered Surveyors.

The Board considers that Adam Smith brings extensive property knowledge to the Board and has been extremely able in his role on both the Board and as chair of the management engagement committee.

# Corporate Governance

This corporate governance statement comprises pages 34 to 37 and forms part of the Directors' Report.

## Statement of compliance

During the year, the Board has considered the principles and provisions of the UK Corporate Governance Code ('UK Code'), issued by the Financial Reporting Council in July 2018. The UK Code can be viewed at: <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>.

The Board considers that throughout the year it has complied with the principles and provisions of the UK Code, except for those provisions, relating to:

- the role and responsibility of the chief executive;
- the role of the senior independent director;
- the roles and responsibilities of the Nomination Committee and Remuneration Committee;
- the chair not being part of the Audit Committee; and
- the requirement for an internal audit function.

The Board considers that those provisions are not relevant to the Company, being an externally managed investment company. In particular, all of the Group's day-to-day management and administrative functions are outsourced to third parties and as a result, the Company has no executive directors, employees or internal operations. In addition, given the Board has only three directors, the Board believes it is both better governance and practical for the Board to cover the role of the Nomination Committee and Remuneration Committee, and for the chair to be a member of the Audit Committee.

## Responsibilities

The Board is collectively responsible for the long-term success of the Group. It provides overall leadership, sets the strategic aims of the Group and ensures that the necessary resources are in place for the Group to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls.

The directors are responsible for the determination of the Group's investment policy and investment strategy and have overall responsibility for the Group's activities, including the review of investment activity and performance.

The Board is also responsible for the control and supervision of the AIFM and Investment Adviser. The Board ensures the maintenance of a sound system of internal controls and risk management and reviews the overall effectiveness of systems in place. They are responsible for approval of any changes to the capital, corporate and/or management structure of the Group.

The Board does not routinely involve itself in day-to-day business decisions but there is a formal schedule of matters that require the Board's specific approval, as set out below, as well as those which can be delegated to the Board committees and the AIFM. The Board retains responsibility for all such delegated matters.

The AIFM is responsible for portfolio management, risk management and approval of property and net asset valuations of the Group pursuant to AIFM Directive, (the 'AIFMD')

The directors have adopted a formal schedule of matters reserved for decision by the Board. These include the following:

1. Establishing and monitoring the Company's business strategy;
2. Oversight of the Group's operations;
3. Appointment and removal of the Company's key service providers;
4. Alterations to the Company's capital or corporate structure;
5. Approval of half-yearly and annual report and accounts and declaration of dividends;
6. Ensuring the maintenance of a sound system of risk management and internal controls;
7. Oversight of AIFM functions;
8. Oversight of contracts not in the ordinary course of business;
9. Raising of new capital and major financing facilities;
10. Determining the remuneration of the directors, subject to the articles of association and shareholder approval as appropriate;
11. Approval of all policies, and specific risk management policies including insurance, borrowing limits and corporate security;
12. Board appointments and removals; and
13. Any decision likely to have a material impact on the Company or Group.

## Composition

During the year, the Board appointed Simon Bennett as an independent non-executive director effective 10 November 2022, subsequently replacing Alan Sippetts as chairman following his retirement on 30 November 2022, as part of a planned succession process.

The Board consists of a non-executive chairman and two non-executive directors. Simon Bennett and Stephanie Eastment were considered independent on and since their appointment. The Board have considered and determined that Adam Smith is not an independent director on and since his appointment. He is not considered to be independent as he is a director of Glenstone Property plc, one of the Company's largest shareholders, which the Board have considered to be a circumstance that impairs his independence in accordance with provision 10 of the UK Code. All directors are independent of the AIFM and Investment Adviser.

The directors' other principal commitments are listed on page 33. During the year, the Board was satisfied that all directors were able to commit sufficient time to discharge their responsibilities effectively having given due consideration of their other commitments.

The directors were advised on appointment of the expected time required to fulfil their roles and have confirmed that they remain able to make that commitment. All changes in any director's commitments outside the Group are required to be disclosed and approved prior to the acceptance of any such appointment.

## Chairman

The chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He promotes a culture of openness and debate and facilitates constructive Board relations and the effective contribution of all directors. In liaison with the Company Secretary, he ensures that the directors receive accurate, timely and clear information. He demonstrates an objective judgement and promotes a culture of openness and constructive debate to ensure the effective contribution of all directors, and facilitates a supportive, co-operative and open environment between the AIFM and Investment Adviser and the directors. He is also responsible for ensuring that the views of shareholders are communicated to the Board as a whole.

The chairman is deemed by his fellow independent Board members to be independent in character and judgement and free of any conflicts of interest. The chairman has no significant commitments other than those disclosed in his biography on page 33.

Given the size of the Board and the Group, it is not considered necessary to appoint a senior independent director.

### Board meetings

The Group has four scheduled Board meetings each year with additional meetings arranged as necessary. In addition, the directors meet frequently outside of scheduled Board meetings.

At each Board meeting, the directors follow a formal agenda which is set by the chairman, and the papers are circulated in advance by the Company Secretary to ensure that the directors receive accurate, clear and timely information to help them discharge their duties. The Board is provided with financial information, together with briefing notes and papers in relation to changes in the Group's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Group's risk management and internal control systems is set out on page 37.

The Group's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Group's portfolio is delegated to the AIFM which, together with the Investment Adviser, manages the assets in accordance with the Group's objectives and policies. The management arrangements can be found on page 48. At each Board meeting, representatives from the AIFM and Investment Adviser attend to present reports to the directors covering the Group's current and future activities, portfolio of assets and its investment performance over the preceding period.

### Board committees

The Company has two committees, the Audit Committee and the Management Engagement Committee ('MEC'). Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate Nomination or Remuneration Committee. The Committees' delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website. Further details about the Audit Committee and MEC can be found on pages 38 to 40.

### Meeting attendance

Board meetings are held quarterly. Additional ad hoc Board meetings are also held for items such as the approvals of the quarterly NAVs and dividends. During the year ended 30 June 2023, the number of meetings, including committee meetings, and each director's attendance were as follows. Director's eligibility to attend the relevant meetings is shown in brackets.

Director	Board Meeting	Audit Committee	MEC
<b>Simon Bennett</b> (appointed 10 November 2022)	3 [3]	1 [1]	0 [0]
<b>Stephanie Eastment</b>	7 [7]	2 [2]	1 [1]
<b>Adam Smith</b>	7 [7]	2 [2]	1 [1]
<b>Alan Sippetts</b> (retired 30 November 2022)	4 [4]	1 [1]	1 [1]

### Performance evaluation

The directors are aware that they need to continually monitor and improve Board performance and recognise that this can be achieved through regular Board evaluation, providing a valuable feedback mechanism for improving Board effectiveness. The Board has established a review process for the annual evaluation of the performance of the Board, the Audit Committee and the MEC, as well as the individual directors. This process is led by the chairman who acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board, as appropriate. The other directors, led by the audit chair, carry out a performance evaluation of the chairman.

Having conducted its performance evaluation, the Board believe that it, and each of its committees, have been effective in carrying out their objectives and that each individual director has been effective, has demonstrated commitment to the role, and has sufficient time to fulfil their duties. The Board discussed the challenges and opportunities that were identified through the performance evaluation and agreed appropriate development points on which progress will be assessed in the next financial period.

The Board does not consider the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted and would incur an unnecessary expense. However, the option of doing so will be regularly reviewed.

### Directors' independence

The independence of the directors was reviewed as part of the annual evaluation process. The Board consists of three non-executive directors, two of which are considered independent. The Board have considered and determined that Adam Smith is not an independent director on and since his appointment. He is not considered to be independent as he is a director of Glenstone Property plc, one of the Company's largest shareholders, which the Board have considered to be a circumstance that impairs his independence in accordance with provision 10 of the UK Code.

### Director induction and training and development

The Company has established a robust induction process for new directors that covers the Group's investment activities, the role and responsibilities of a director and guidance on corporate governance and applicable regulatory and legislative landscape.

A full induction was facilitated by the Company Secretary for Simon Bennett on his appointment to the Board on 10 November 2022, part of which included the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees also have the opportunity of meeting with the other directors and relevant persons of the Investment Adviser and AIFM.

The directors' training and development was assessed as part of the annual effectiveness evaluation and the chairman regularly reviews and discusses the development needs with each director. Each director is fully aware that they should take responsibility for their own individual development needs and take the necessary steps to ensure they are wholly informed of regulatory and business developments. During the year, the directors received periodic guidance on regulatory and compliance updates from the Company's professional advisers.

# Corporate Governance continued

## Succession planning and Board diversity

The Board as a whole has given full consideration to succession planning as part of the Board's formal annual evaluation to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Board and the balance of skills and expertise now and required in the future. The Board recognises the benefits of a diverse board, being from a variety of factors including gender, age, race, disability or socio-economic background, to name but some.

The Board considers that it has an appropriate balance of skills and experience. The Board considers that, collectively, it has substantial recent and relevant experience of the property sector, investment trusts and financial and public company management.

In identifying suitable candidates for an appointment to the Board, the Company may use open advertising or the services of external advisers to facilitate the search. During the year the Board undertook a recruitment process which included the appointment of Tyzack Partners as an independent adviser. This included a detailed job description, in-depth interviews and the careful screening of candidates. This thorough and comprehensive process resulted in the appointment to the Board of Simon Bennett as an independent non-executive director on 10 November 2022. As part of the planned succession process, Alan Sippetts subsequently retired as a director and the chairman at the conclusion of the AGM held on 30 November 2022, with Simon Bennett succeeding him as chairman from that time. Tyzack Partners have no connection to the Company or individual directors.

## Tenure policy

The Board has adopted a policy whereby all directors will stand for re-election (or election if appointed in the year) at each AGM. In addition, the directors, including the chairman, will not stand for re-election as a director of the Company later than the AGM following the ninth anniversary of their appointment to the Board, unless in relation to exceptional circumstances.

## Board's diversity policy and diversity information

### Diversity policy

At the year end, the Board was comprised of three non-executive directors, two male and one female, who in aggregate have the appropriate balance of skills and experience to meet the future opportunities and challenges facing the Group. The Board reviews its composition and effectiveness as part of the annual Board performance evaluation process and the Board's succession planning.

### Diversity information

The Board is supportive of the Listing Rule diversity targets for listed companies and the following table sets out the gender and ethnic diversity of the Board at 30 June 2023, in accordance with the Financial Conduct Authority ('FCA') Listing Rules 9.8.6R(10) and 14.3.33R. As part of this process, the Board resolved that the Company's year end date be the most appropriate date for disclosure purposes and confirms that the information in the table was provided individually by each director.

Gender Diversity	Number of Board members	Percentage of the Board	Number of senior positions on the Board
Men	2	66.7%	1
Women	1	33.3%	–
Not specified/ prefer not to say	–	–	–

Ethnic Diversity	Number of Board members	Percentage of the Board	Number of senior positions on the Board
White British or other White (including minority white groups)	3	100%	1
Not specified/ prefer not to say	–	–	–

Although supportive of the targets, as a Company with only three directors it has not been possible for the Board to be able to meet the three targets set by the FCA Listing Rules. Explanation of this non-compliance, and how the Board intends to address it long term, are set out in the table below.

Requirement	Explanation
At least 40% of the individuals on its board of directors are women	The Board comprises three directors, one of whom is female, meaning that it has 33% female representation rather than the targeted 40%. The Board do not believe that at this time it would be in the best interests of the Company to incur the additional expense of appointing a fourth director, as the Board has an appropriate mix of skills, knowledge and experience.
At least one of the following senior positions on its board of directors is held by a woman: <ul style="list-style-type: none"> <li>- The Chair</li> <li>- The Chief Executive</li> <li>- The senior independent director ('SID')</li> <li>- The Chief Financial Officer</li> </ul>	For the reasons explained earlier, the Company does not have a SID. As an externally managed REIT, the Company does not have a chief executive or chief financial officer and the Board believes that the audit chair is a senior position. As a result, the only FCA-recognised senior position is the chair, which is held by a male. Whereas the Board believes the Company has two senior positions with one held by a male and one held by a female – the latter thus meeting the spirit of the target.
A minimum of one board member is from a minority ethnic background	The size of the Board, and also the Company, make meeting this target challenging. The Company has committed to ensuring suitable candidates form part of shortlists, albeit final selection will be based on merit and the best overall candidate for the job. However, the Board will ensure that active steps are taken to search for and attract ethnically diverse candidates whenever it recruits.

### Re-election and election of directors

As part of the performance evaluation, the Board concluded that each of the directors provide a valuable contribution to the Company and its long-term sustainable success. The rationale for their re-election can be found on page 33 of this report.

In accordance with the UK Code, all directors will submit themselves for election or re-election on an annual basis. Therefore, Simon Bennett will be standing for election, and Stephanie Eastment and Adam Smith will be standing for re-election at the Company's forthcoming AGM.

### Directors' conflicts of interest

It is the responsibility of each individual director to avoid an unauthorised conflict of interest arising.

A director must request authorisation from the Board as soon as they become aware of the possibility of an interest that conflicts, or might possibly conflict, with the interests of the Group. The Company's Articles of Association (the 'Articles') allow the Board to authorise such potential conflicts, and there is a procedure in place to deal with any actual, or potential, conflicts of interest. Where the conflict arises due to an appointment, the Board deals with each appointment on its individual merit and takes into consideration all relevant circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings to ensure that any authorised conflicts remain appropriate. The directors are required to confirm at these meetings whether there has been any change to their position.

### Relations with shareholders

Communication with shareholders is given high priority by both the Board and the Investment Adviser.

The chairman and the Company's broker have been in regular contact with major shareholders and report the results of meetings and the views of those shareholders to the Board on a regular basis. In addition, the Company communicates with its shareholders through the Annual and Interim Reports, quarterly trading updates, and at the Company's AGM at which shareholders are given the opportunity to ask questions of the Board and representatives of the Investment Adviser. The chairman ensures that the Board as a whole has a clear understanding of the views of shareholders by receiving regular updates from the Company's broker, which are tabled at the Company's board meetings.

Any shareholder wishing to contact the Company should address their query to the chairman and/or the Company Secretary at the registered office address on page 88.

### Internal controls and risk management

The Board is responsible for the systems of internal controls relating to the Group including the reliability of the financial reporting process and for reviewing the risk management and internal controls effectiveness. The directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process has been established for identifying, evaluating and managing the risks faced by the Group, including emerging risks. This process, together with key procedures established with a view to providing effective financial control, was in place both during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made, and which is issued for publication, is reliable, and that the assets of the Group are safeguarded.

Risk management and internal controls are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The directors have carried out a review of the effectiveness of the risk management and internal controls as they have operated throughout the year and up to the date of approval of the Annual Report and Financial Statements.

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Group's overall investment objective.

In arriving at its judgement of what risks the Group faces, the Board, through the Audit Committee, has considered the Group's operations in light of the following factors:

1. the nature and extent of risks which it regards as acceptable for the Group to bear within its overall business objective;
2. the threat of such risks becoming reality;
3. the Group's ability to mitigate the probability and impact of risks on its performance; and
4. the extent to which third parties operate the relevant controls and to what extent reliance can be placed on this.

A risk register has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate against them. During the year the Audit Committee updated this risk register and refined the heat risk map which highlights the top, post-mitigated, risks of the Company. The Board also undertook a top-down review of risks to ensure that these aligned with the top risks identified by the risk matrix bottom-up approach. The top risks, heat map, and risk register matrix is reviewed twice a year by the Audit Committee.

The Board reviews financial information produced by the Administrator on a regular basis.

Most functions for the day-to-day management of the Group are sub-contracted, and the directors therefore obtain assurances and information from key third-party suppliers regarding the internal systems and controls operated in their respective organisations. In addition, third parties are requested to provide a copy of their report on internal controls each year, which are reviewed by the Audit Committee.



# Report of the Audit Committee

## Committee membership

The Audit Committee comprises Stephanie Eastment as chair, Simon Bennett and Adam Smith. Simon Bennett was appointed as a member of the Audit Committee with effect from 10 November 2022. On 30 November 2022, Alan Sippetts retired as director of the Company and member of the Audit Committee. The Audit Committee met twice during the year under review.

Stephanie Eastment has recent and relevant financial experience. The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective manner and has competence relevant to the sector in which it operates.

## Role of the Committee

The Committee assists the Board in discharging its responsibilities with regard to financial reporting, external audit and internal controls, including:

1. monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports and reviewing significant financial reporting issues and the judgements which they contain;
2. keeping under review the adequacy and effectiveness of the Group's risk management and internal control systems and reviewing and approving the statements to be included in the annual report concerning risk management and internal controls, going concern and annual viability statement;
3. making recommendations to the Board in relation to the appointment/re-appointment or removal of the auditor and approving its remuneration and terms of engagement;
4. reviewing and monitoring the auditor's independence, objectivity and effectiveness; and
5. approving any non-audit services to be provided by the auditor and monitoring the level of fees payable in that respect.

## Performance evaluation

Refer to page 35 of the Corporate Governance section detailing how the review of the Committee's performance has been conducted, and the results of such evaluation.

## Activities

The Committee meets at least twice a year to consider the annual report and half-year report and any other matters as specified under its terms of reference. During the year and up to the date of this report, the Audit Committee has: reviewed financial results for publication; reviewed the performance and effectiveness, objectiveness and independence of the auditor and considered its re-appointment and remuneration; reviewed the non-audit services provided by the auditor and the associated fees incurred; reviewed the risk management and internal controls systems of the Group and its third-party service providers; and reviewed the Committee's terms of reference which are available on the Company's website.

In addition to the above, during the year the Audit Committee took an in-depth review of the Company's risk management and internal controls, including the Company's risk register, updating of the heat risk map, and introducing a top risk (post-mitigation) schedule. The Board also undertook a top-down review of risks to ensure that these aligned with the top risks identified by the risk management system's bottom-up approach. Lastly, the audit chair held several discussions with the Investment Adviser during the year, and with the Investment Adviser and auditor during the audit of the Company.

## Significant issues considered by the Committee

### Valuation

The Committee determined that a key area of consideration in relation to the Consolidated Financial Statements of the Group was the valuation of the investment properties, as it is fundamental to the Group's statement of financial position and audited results. The 19 properties in the portfolio at the year end were externally valued by qualified independent valuers (using the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards) and whilst comparable market transactions provide valuation evidence, there are assumptions which involve significant levels of judgement. The Committee considered the valuations and these were also discussed with the AIFM, Investment Adviser and auditor during the audit of the financial statements. Details of the valuation methodology are contained in note 10 to the Consolidated Financial Statements.

### Measurement of Investment in subsidiary undertakings

The Committee considered the comparison of the carrying value of its investment in subsidiary undertakings with the net assets of the subsidiary's balance sheet, to identify whether the net assets exceeded the carrying amount which would be an indicator of impairment in the carrying value of the subsidiary. The auditor was satisfied that the measurement of the investment in the subsidiary undertaking was free from material misstatement.

## Internal controls

The Committee carefully considers the internal control systems by monitoring the services and controls of its third-party service providers. As previously explained, the Committee undertook a review of the Company's risk management and internal controls. It received reports on internal control and compliance from the Investment Adviser and the Group's other major service providers and no significant matters of concern were identified.

## Internal audit

The Committee has considered whether establishing an internal audit function would be appropriate and concluded that, considering the structure and nature of the Group's activities, such a function is not necessary. The Committee believes that the existing system of monitoring and reporting by third parties remains appropriate and adequate and will review this position on an annual basis and make appropriate recommendations to the Board.

### Going concern and long-term viability of the Group

The Committee considered the Group's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the financial statements have been prepared on a going concern basis.

The Committee also considered the longer-term viability statement within the Annual Report for the year ended 30 June 2023, covering a three-year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Group's long-term viability. The Group's viability statement can be found on page 31.

### Independence and objectivity of the auditor

It is the Committee's responsibility to monitor the performance, objectivity and independence of the auditor and this is evaluated by the Committee each year. The Company's external auditor is Moore Kingston Smith LLP ('MKS'). In evaluating MKS's performance, the Committee examines five main criteria – robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice. Having carried out a review the Committee is satisfied with the auditor's performance and that as the auditor did not carry out non-audit services the objectivity and independence of the auditor was not compromised.

### External audit process

The Committee meets at least twice a year with the auditor, once at the planning stage before the audit and again after the audit at the reporting stage. The auditor provides a planning report in advance of the annual audit, and a report on the annual audit. The Committee has an opportunity to question and challenge the auditor in respect of both of these reports.

In addition, at least once a year, the Committee has an opportunity to discuss any aspect of the auditor's work with the auditor in the absence of the AIFM and Investment Adviser and other service providers. After the annual audit, the Committee will review the audit process and consider its effectiveness.

### Appointment of the auditor

Following a review of its independence and objectivity, the Committee has recommended to the Board that re-appointment of MKS as the Company's auditor be proposed to shareholders at the forthcoming AGM. MKS has expressed its willingness to continue as the Company's auditor.

MKS was appointed as auditor to the Group on 23 June 2021 following a competitive tender process. Jonathan Sutcliffe is the audit partner and this year's audit is his third one. In line with EU requirements adopted by the UK, it is intended that the external audit will be re-tendered at least every ten years.

### Audit fees and non-audit services

The Committee has sole responsibility for agreeing the audit fee.

An analysis of audit fees is set out below:

	Year ended 30 June 2023	Year ended 30 June 2022
	£'000	£'000
<b>Audit fees</b>		
Statutory audit of Annual Report and Accounts (including £6,000 fees relating to year ended 30 June 2022)	76	53
Statutory audit of Subsidiary Accounts	11	10
	<b>87</b>	<b>63</b>

The Committee has a policy on the engagement of the auditor to supply non-audit services. All non-audit services are reviewed by the Committee which makes recommendations for the provision of each non-audit service and ensures that the statutory auditor is not engaged to perform work that is prohibited under EU law as adopted by the UK.

The non-audit services policy was reviewed, and its application monitored by the Committee during the year and it was agreed that the policy remained appropriate for the Group.

MKS have not provided any non-audit services to the Group.

**Stephanie Eastment**  
Audit Committee Chair  
29 September 2023



# Report of the Management Engagement Committee

## Committee membership

The MEC comprises Adam Smith as Chair, Simon Bennett and Stephanie Eastment. Simon Bennett was appointed as a member of the MEC with effect from 10 November 2022 and on 30 November, 2022 Alan Sippetts retired as director of the Company and member of the MEC.

## Role of the Committee

The Committee is responsible for reviewing the appropriateness of the continuing appointment of the AIFM and Investment Adviser and ensuring the terms and conditions of the AIFM and Investment Adviser's continuing appointment align with the investment policy and investment objective of the Group.

## Matters considered in the year

The Committee receives reports from external advisers and from the AIFM and Investment Adviser, as required, to enable it to discharge its duties. The main activities undertaken during the year, and to the date of this report, were that the Committee:

1. satisfied itself that the AIFM and Investment Adviser agreements are fair and that the terms remain competitive and sensible for shareholders and that matters of compliance are under proper review;
2. reviewed the performance of other third-party service providers and made recommendations to the Board regarding these; and
3. reviewed the Committee's terms of reference (which are available on the Company's website).

## Performance evaluation

Refer to page 35 of the Corporate Governance section detailing how the review of the Committee's performance has been conducted, and the results of such evaluation.

## Review of service providers

The Committee reviews the ongoing performance and the continuing appointment of key service providers of the Group including the AIFM and Investment Adviser on an annual basis. The Committee also considers any variation to the terms of key service providers' agreements and reports its findings to the Board.

## Continuing appointment of the AIFM and Investment Adviser

The Committee has reviewed the continuing appointment of the AIFM and Investment Adviser and are satisfied that their appointment remains in the best interests of shareholders as a whole.

## Adam Smith

Management Engagement Committee Chair  
29 September 2023

# Annual Statement on Directors' Remuneration



## Dear Shareholder,

I am pleased to present the Directors' Remuneration Report on behalf of the Board for the year ended 30 June 2023. It is set out in two sections in line with legislative reporting regulations:

- Remuneration Policy – This sets out our Remuneration Policy for directors of the Company and will be subject to a binding shareholder vote at the Company's forthcoming AGM.
- Annual Report on Directors' Remuneration – This sets out how the directors were paid for the year ended 30 June 2023. There will be an advisory shareholder vote on this section of the report at the Company's forthcoming AGM.

The Group does not have any executive directors or employees, and, as a result, operates a simple and transparent remuneration policy that reflects the non-executive directors' duties, responsibilities and time spent.

Full details of the Remuneration Policy, as well as how directors were paid for the year ended 30 June 2023, are set out on pages 42 to 45.

We value engagement with our shareholders and for the constructive feedback we receive. We look forward to your support at the upcoming AGM.

*S Bennett*

**Simon Bennett**

Chairman

29 September 2023

# Remuneration Policy

The Remuneration Policy (the 'Policy') was last approved by shareholders at the 2020 AGM of the Company held on 26 November 2020 and became effective from the conclusion of that meeting.

In accordance with section 439A of the Companies Act 2006, a resolution to approve this Policy will be proposed at the AGM of the Company to be held on Wednesday 15 November 2023 at 10.00am. There are no proposed changes to the Policy, with the exception of a few minor changes to make the policy read better, and a small change to remove reference to the director fee levels (in £ terms) as these are disclosed in the Directors' Remuneration Report. This latter change was previously highlighted in the Annual Statement on Directors' Remuneration in the 2022 annual report and accounts. If the resolution is passed, the provisions of the Policy will apply until the Policy is next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if the Policy is materially varied, in which event shareholder approval for the new Policy will be sought.

## Overview

All directors are non-executive, and the Company follows the recommendation of the UK Code that non-executive directors' remuneration should reflect the time commitment and responsibilities of the role. The Board's policy is that the remuneration of non-executive directors should support the strategic objectives of the Company, reflect the experience of the Board as a whole and be determined with reference to comparable organisations and appointments. The Group has no employees and consequently has no policy on the remuneration of employees.

## Policy table

Component	Operation	Link to Strategy
<b>Annual Fee</b>	<p>The Board has set three levels of fees: one for a director and additional levels for the chair of the Audit Committee and the chair of the Board.</p> <p>The approval of shareholders would be required to increase the aggregate limit of £400,000 for directors' remuneration, set out in the Company's Articles.</p>	<p>The level of the annual fee has been set to attract and retain high calibre directors with the skills and experience necessary for the role.</p> <p>The fee has been benchmarked against companies of a similar size in the sector, having regard to the time commitment and expected contribution to the role.</p>

<b>Additional Service Fee</b>	The Company's Articles provide that if any director shall perform or render any special duties or services outside his ordinary duties as a director, he may be paid such reasonable additional fees as may be considered appropriate.	The additional fee offers flexibility for a director to be awarded additional remuneration to adequately compensate a director for any special services or services outside his ordinary duties where this is considered appropriate for the effective functioning of, or in furtherance of, the Company's aims.
<b>Other Benefits</b>	The Company's Articles provide that directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.	In line with market practice, the Company will reimburse directors for expenses to ensure that they are able to carry out their duties effectively.

Fees are reviewed annually in accordance with the above policy. The fee for any new director appointed to the Board will be determined on the same basis.

## Service contracts

Directors do not have service contracts with the Company but are engaged under letters of appointment, copies of which are available for inspection at the Company's registered office. None of the directors has a contract of service with the Group.

## Directors' term of office

Directors are not appointed for a specific term and will stand for annual re-election at the Company's annual general meetings.

## Loss of office

The letters of appointment specifically exclude any entitlement to compensation upon leaving office for whatever reason.

## Relations with shareholders

The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to directors would be taken into consideration by the Board when reviewing the Directors' Remuneration Policy as a part of any review of directors' fees.

# Directors' Remuneration Report

The Board has resolved that a remuneration committee is not appropriate for a company of this nature and a Board of this size. Remuneration therefore forms part of the Board's responsibilities. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

The level of directors' fees for the year and the preceding year are set out below. Directors' fees were revised effective 1 July 2022 for the first time since inception of the Company in 2017. This followed a remuneration benchmarking exercise and review of independent advice and to ensure that fees were sufficient to attract and retain directors of suitable calibre and with the skills, knowledge and experience necessary for the role having regards to the expected time commitment.

	2023 (£)	2022 (£)
<b>Chairman</b>	39,000	30,000
<b>Audit Committee Chair</b>	32,500	25,000
<b>Director</b>	26,000	20,000

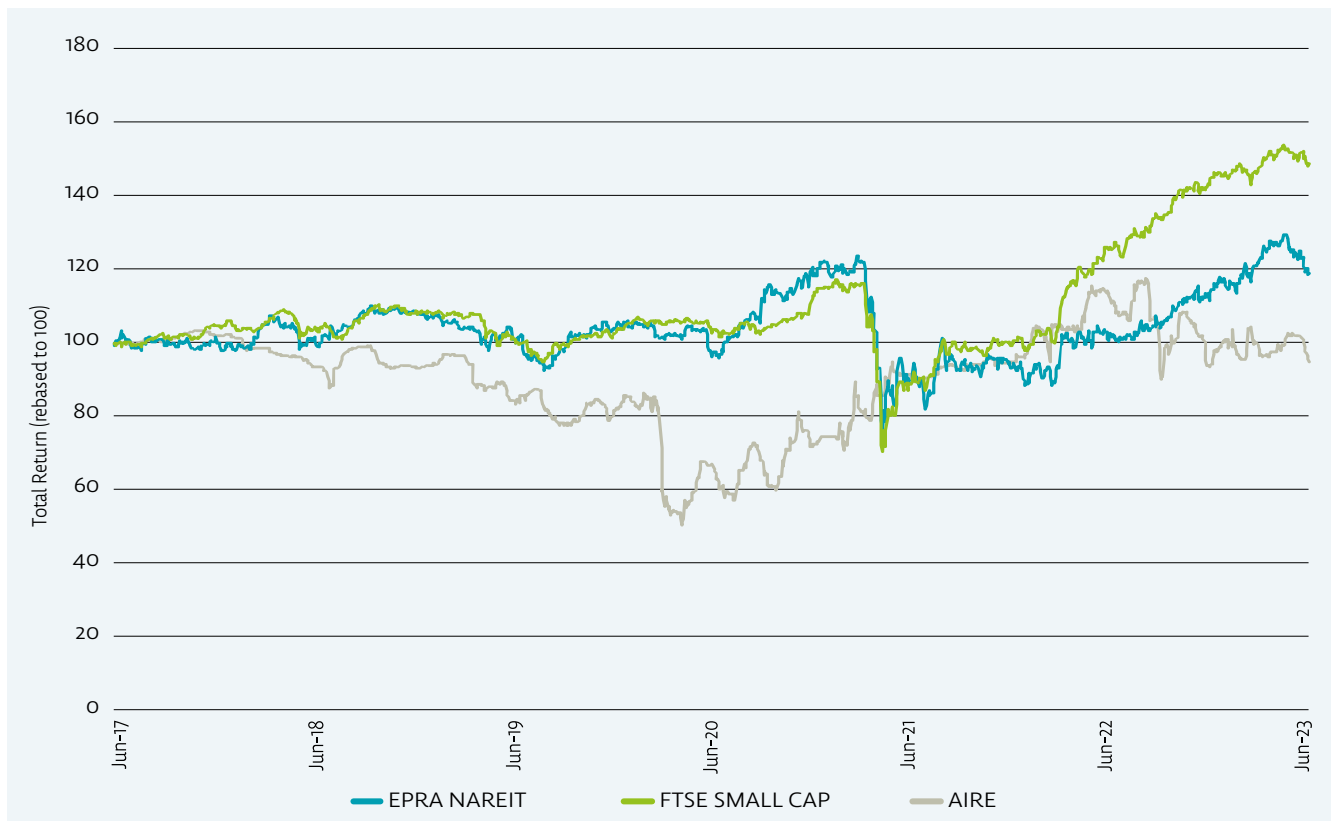
The Board have again undertaken a review of directors' fees based on peer companies, market capitalisation and the increase in the Consumer Price Index. Following this review, the Board have resolved to increase fees with effect from 1 July 2023 as follows: chairman – £41,000, audit committee chair £34,100 and other directors – £27,300. This represents a 5% increase and is considered to reflect the expertise and time commitments of directors, and the increase in market rates since last year.

An ordinary resolution will be put to shareholders at the forthcoming AGM to receive and approve the Directors' Remuneration Report. This is an advisory vote only.

## Performance of the Company

The chart below compares the share price total return (assuming all dividends re-invested) compared with the total return on the FTSE EPRA Nareit UK and FTSE Small Cap Indices over the period since inception of the Company. These indices have been chosen as they are considered to be the most appropriate benchmark against which to assess the relative performance of the Company.

Total Return vs NAREIT vs FTSE Small Cap



# Directors' Remuneration Report continued

## Single total figure (audited information)

The remuneration paid to the directors during the year ended 30 June 2023 is set out in the table below and reflects the directors' fee increase of 30% effective 1 July 2022. This increase was a result of a remuneration benchmarking exercise which included independent advice, and also reflected the fact that fees had not been increased since 2017.

	2023			2022		
	Total Fixed Remuneration (£)	Total Expenses (£)	Total Fees (£)	Total Fixed Remuneration (£)	Total Expenses (£)	Total Fees (£)
Simon Bennett <sup>1</sup>	24,339	–	24,339	n/a	n/a	n/a
Alan Sippetts <sup>2</sup>	16,250	104	16,354	30,000	–	30,000
Stephanie Eastment <sup>3</sup>	32,500	487	32,987	18,750	–	18,750
Adam Smith	26,000	–	26,000	20,000	–	20,000
Jim Prower <sup>4</sup>	n/a	n/a	n/a	6,250	–	6,250
<b>Total</b>	<b>99,089</b>	<b>591</b>	<b>99,680</b>	<b>75,000</b>	<b>–</b>	<b>75,000</b>

### Notes

- Simon Bennett was appointed as a director and as chairman with effect from 10 November 2022, and therefore his 2023 remuneration was pro-rata from 10 November 2022 to 30 June 2023.
- Alan Sippetts retired as a director with effect from 30 November 2022, and therefore his 2023 remuneration was pro-rata from 1 July 2022 to 30 November 2022.
- Stephanie Eastment was appointed as a director and audit chair on 1 October 2021, and therefore her 2022 remuneration was pro-rata from 1 October 2021 to 30 June 2022.
- Jim Prower resigned as a director with effect from 1 October 2021, and therefore his 2022 remuneration was pro-rata from 1 October 2021 to 30 June 2022.

Year ended 30 June	Annual Change in Directors' Fees (excluding expenses)		
	2023 (%)	2022 (%)	2021 (%)
Simon Bennett	See note A	n/a	n/a
Alan Sippetts	See note A	38% See note B	8% See note B
Stephanie Eastment	73% <sup>1</sup>	See note A	n/a
Adam Smith	30%	233% <sup>2</sup> See note B	See note A
Jim Prower	n/a	See note A	-38% <sup>3</sup>

### Notes

- A: Percentage change figures cannot be calculated in the year of appointment or the year of retirement/resignation.  
 B: There were no changes to Director Fees from inception of the Company in 2017, until 1 July 2022. Accordingly, all percentage changes for 2021 and 2022 arise from either a change in role (for example, the increases for Alan Sippetts both arise from his appointment as chairman on 1 May 2021) or due to the fact that the percentage change is skewed because the denominator fee is for a period of less than 12 months.

- The 73% increase in 2023 reflects both the 30% directors' fee increase and that Stephanie Eastment's 2022 remuneration was pro-rata from her appointment date.
- Adam Smith was appointed as a director with effect from 8 March 2021, and therefore his 2021 remuneration was pro-rata from 8 March 2021 to 30 June 2021. If he had served a full year to 30 June 2021, the % increase from 2021 to 2022 would have been nil.
- The 38% decrease in 2021 reflects the fact that Jim Prower received an additional fee of £15,000 paid in the year ended 30 June 2020.

### Relative importance of spend on pay

The table below sets out, in respect of the year ended 30 June 2023, the remuneration paid to the directors. The management fee and dividends paid are shown to give shareholders a greater understanding of the relative importance of spend on pay.

	2023 £,000	2022 £,000
<b>Directors' remuneration</b>	99	75
<b>Investment adviser fee</b>	371	368
<b>Dividends paid</b>	4,609	4,460

### Directors' interests (audited information)

Neither the Company's Articles, nor the directors' letters of appointment require a director to own shares in the Company. The interests of the directors and their persons closely associated in the equity of the Company at 30 June 2023 are shown in the table below. There have been no changes to the above holdings since the year end and up to the date of this report.

	2023 Number of shares	2022 Number of shares
<b>Simon Bennett</b>	–	N/A
<b>Stephanie Eastment<sup>1</sup></b>	55,000	20,473
<b>Adam Smith<sup>2</sup></b>	22,055,461	22,055,461

<sup>1</sup> 25,920 Ordinary Shares are held by Stephanie Eastment and 29,080 are held by persons closely associated with Stephanie Eastment (2022: 10,920 and 9,553 respectively).

<sup>2</sup> 20,155,461 Ordinary Shares were held by Glenstone Property plc and 1,900,000 Ordinary Shares were held by Lecram Holdings Ltd, persons closely associated with Adam Smith; he did not hold any shares in his own name.

None of the directors or persons closely associated with them had a material interest in the Group's transactions, arrangements or agreements during the year.

### Consideration of shareholder views

During the year, the Company did not receive any communications from shareholders specifically regarding directors' pay. The resolution to approve the Directors' Remuneration Report was passed at the Annual General Meeting on 30 November 2021.

### AGM voting

The Directors' Remuneration Policy was last approved by shareholders at the AGM held on 26 November 2020 on a poll; the poll votes received were as set out below. The Directors' Remuneration Report (excluding the Directors' Remuneration Policy) was last approved by shareholders at the AGM held on 10 November 2022 on a poll; the poll votes received were as set out below.

Voting	Remuneration Report	Remuneration Policy
For – number of votes cast	24,089,531 (99.57%)	40,326,456 (98.26%)
Against – number of votes cast	50,167 (0.21%)	712,068 (1.74%)
Total votes cast	24,194,169	41,038,524
Number of votes withheld	577,136	1,954,202

### Approval

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:



**Simon Bennett**  
Chairman  
29 September 2023

# Directors' Report

## Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 46 to 47, and incorporates the Corporate Governance Statement on pages 34 to 37. In accordance with s414c(11) of the Companies Act 2006, information required to be disclosed in respect of future developments and principal risks and uncertainties is included within the Strategic Report.

## Principal activity

The Company is a closed-ended investment company and is a Real Estate Investment Trust. The Company is a holding company of two subsidiaries. The Group invests in properties in accordance with the Investment Policy and Investment Objective.

## Results and dividends

The interim dividends paid by the Company are set out in note 9 of the Consolidated Financial Statements. A summary of the Group's performance during the year, significant events following the year end and future developments is set out in the Strategic Report on pages 3 to 31.

## Directors

The directors in office at the date of this report are shown on page 33.

On 30 November 2022, Alan Sippetts retired as an independent non-executive director with Simon Bennett succeeding Alan Sippetts as chairman on the same date.

## Power of directors

The directors' powers are determined by UK legislation and the Articles. The Articles may be amended by a special resolution of the members. The directors may exercise all of the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members. The Articles govern the appointment and replacement of directors.

## Indemnity provisions

Save for such indemnity provisions in the Company's Articles, there are no qualifying third-party indemnity provisions in force. The Board has agreed to a procedure by which directors may seek independent professional advice if necessary and at the Company's expense. The Company has also arranged for the appropriate provision of Directors' and Officers' Liability Insurance.

## Annual General Meeting

The Company's 2023 AGM will be held on 15 November 2023 at 10am, and the Notice of Annual General Meeting has been set out on pages 89 to 95 of this report.

## Voting entitlement

Each shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held. The Notice of AGM and Form of Proxy stipulate the deadlines for the valid exercise of voting rights and, other than with regard to directors not being permitted to vote their Ordinary Shares on matters in which they have an interest.

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

## Share capital

At 30 June 2023, and at the date of this report, there are 80,500,000 £0.01 Ordinary Shares in issue, none of which are held in treasury.

## Purchase of own shares

At the Company's AGM on 10 November 2022, the Company was granted authority to purchase up to 10% of the Company's Ordinary Shares in issue. No shares have been bought back under this authority during the year, which expires at the conclusion of the Company's 2023 AGM. A resolution to renew the Company's authority to purchase (either for cancellation or for placing into Treasury) up to 8,050,000 Ordinary Shares (being 10% of the issued Ordinary Share capital at the date of this report), will be put to shareholders at the 2023 AGM. Any purchase will be made in the market and prices will be in accordance with the terms laid out in the Notice of AGM. The authority will be used where the directors consider it to be in the best interests of shareholders.

## Income entitlement

The profits of the Company available for distribution and determined to be distributed shall be distributed by way of interim or final dividends among the holders of Ordinary Shares.

## Capital entitlement

After meeting the liabilities of the Company on a winding-up, the surplus capital and assets shall be paid to the holders of Ordinary Shares and distributed among such holders pro-rata according to the nominal capital paid up on their holdings of Ordinary Shares.

## Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out. The directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.



### Substantial shareholdings

At 30 June 2023 the Company had been notified under Disclosure Guidance and Transparency Rule ('DTR') 5 of the following significant holdings of voting rights in its Ordinary Shares. These holdings may have changed since notification; however, notification of any change is not required until the next applicable threshold is crossed.

Shareholder	Number of Ordinary Shares held	% of Total Voting Rights
Glenstone REIT plc	20,155,461	25.0
Hawksmoor Investment Management Limited	7,953,241	9.9
Wellian Investment Solutions Limited	4,433,000	5.5
Quilter plc	3,538,148	4.4
Charles Stanley Group plc	2,847,825	3.5

The Company has not been notified of any changes to the above interest at the date of this Report.

### Related Party Transactions

Related party transactions during the period to 30 June 2023 can be found in note 20 to the Consolidated Financial Statements.

### Research and Development

No expenditure on research and development was made during the year (2022: Nil).

### Donations and Contributions

No political or charitable donations were made during the year (2022: Nil).

### Branches Outside the UK

There are no branches of the business located outside the United Kingdom.

### Subsidiary companies

Details of the Company's subsidiaries are set out in note 16 to the Consolidated Financial Statements.

### Management arrangements

Langham Hall Fund Management LLP is the Group's AIFM, and the terms of the AIFM Agreement are set out on page 48. M7 Real Estate Limited ('M7') is the Investment Adviser, and its role is to provide the Company with advice, support and services including debt advisory, reporting, fund accounting and investment advisory services together with asset management, operational advice, budgeting and planning for the Group's portfolio. M7 has delegated authority to act within defined parameters and where decisions outside pre-approved criteria are required, specific approval is required from the Board and AIFM. Further details can be found in note 20 of the Group's Consolidated Financial Statements.

### Financial risk management

The financial risk management objectives and policies can be found in note 18 to the Consolidated Financial Statements.

### Contracts of significance

There are no contracts of significance of the Company or a subsidiary in which a director is or was materially interested or to which a controlling shareholder was a party.

### Statement of disclosure of information to auditor

So far as each director is aware there is no relevant information, which would be needed by the Group's auditor in connection with preparing their audit report (which appears on pages 50 to 53), of which the auditor is not aware; and each director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that he ought to have taken as a director to make himself aware of any such information and to ensure that the auditor is aware of such information.

### Information included in the Strategic Report

The information that fulfils the reporting requirements relating to the following matters can be found on the pages identified.

Subject matter	Page reference
Likely future developments	3 to 31

The Directors' Report has been approved by the Board and signed on its behalf by:



**Simon Bennett**  
Chairman  
29 September 2023

# Information Disclosures under the AIFM Directive ('AIFMD')

Langham Hall Fund Management LLP (the 'AIFM') is authorised by the FCA as a Collective Portfolio Management Investment Firm ('CPMIF') under the AIFM directive, and was authorised as such, with effect from 21 February 2017.

Requirements for compliance with the Alternative Investment Fund Managers Directive in the UK are set out in the FCA Investment Funds sourcebook. The FCA's general guidance on the AIFM Remuneration Code (SYSC 19B) (the 'Code') was published in January 2014. Under the Code, the senior management committee in its oversight of the AIFM must make relevant remuneration disclosures no later than six months following the end of the financial year, splitting remuneration into fixed and variable remuneration.

The senior management committee approves the list of AIFM Code staff annually. In addition, AIFM Code staff are notified of their status and the implications of this annually.

## Remuneration policy

The senior management committee of the AIFM has established a remuneration policy and its purpose is to ensure that the remuneration of its members and employees is consistent with and promotes sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the AIFM and the AIFs it manages.

This policy applies to the AIFM and Alternative Income REIT Plc as the AIF.

## Employee remuneration disclosure

The table below provides an overview of the following:

- Remuneration paid by the AIFM to all staff.

	Headcount	Remuneration (£)
<b>The AIFM's staff</b>		
Fixed remuneration	19	769,884
Variable remuneration	19	19,000

# Statement of Directors' Responsibilities in respect of the Annual Report and the Consolidated Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with the UK adopted international accounting standards. The directors have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with Companies Act 2006 and in accordance with UK adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company, or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and

enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that the Annual Report and the Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board:



**Simon Bennett**  
Chairman  
29 September 2023

# Independent Auditor's Report to the Members of Alternative Income REIT Plc

## Opinion

We have audited the financial statements of Alternative Income REIT Plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 30 June 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Statements of Financial Position, the Consolidated Statement of Cash Flows, the Group and the Company Statements of Changes in Equity and Notes to the Consolidated and the Company Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Our approach to the audit

Our Group audit was scoped by obtaining an understanding of the Group and the Company and their environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement. At 30 June 2023, the Group had two components whose transactions and balances are included in the consolidated financial statements. Both components, being, Alternative Income REIT Holdco Limited and Alternative Income Limited, were considered to be significant components and were subject to a full scope audit. All work was carried out by the Group audit team.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters

### Investment property valuations

(Group £103,847,000 (2022 : £115,124,000) and Company £1,814,000 (2022 : £2,153,000))

Refer to note 2 in relation to significant estimates and accounting policies.

Refer to note 10 in relation to Investment property.

The valuation of investment property requires significant judgements and estimates to be made by the directors and the independent valuer and is therefore considered a key audit matter due to the subjective nature of certain assumptions inherent in each valuation.

Each property's fair value is impacted by a number of factors, but in particular future rental income and market yields applied thereto, which in turn are impacted by the location, quality and condition of the building and tenant covenant.

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluation the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including disclosure omissions, could reasonably influence the economic decisions of users that are taken on the basis of the financial statements.

Materiality for the Group financial statements was set at £1,082,000 (2022: £1,180,000), determined with reference to the benchmark of 1% of total assets (2022: 1%). We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be the principal benchmark which the users of the financial statements would consider in assessing the financial performance of the Group.

Performance materiality is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that performance materiality for the Group should be 50% of overall financial statements materiality being £541,000.

Specific materiality was determined for the measurement of other account balances and classes of transactions not related to investment property. A misstatement of less than materiality for the Group financial statements as a whole could influence the economic decisions of users. As a result, we determined that specific materiality for these areas should be £291,000 (2022: £340,000), based on 5% (2022: 5%) of the average profit of the prior two years less change in property value. We further applied a performance materiality level of 50% (2022: 50%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

We determined that the benchmark of 1% of total assets used for the Group was also appropriate for determining materiality for the Company. Subsidiary investment balances were removed from the gross assets

## How our scope addressed this matter

### Our audit procedures included:

- We obtained the valuation report prepared by the independent valuer and discussed the basis of the valuation with them. We confirmed that the basis of the valuations was in accordance with the requirements of the relevant accounting standards.
- We reviewed the information including the assumptions used for the independent valuation
- We assessed and confirmed the external valuer's qualifications, independence and basis of valuation.
- We appointed a third-party expert to review the independent valuer's valuation report.
- We discussed, critically assessed and challenged the outcomes of the third-party expert review with the independent valuer to gain assurance over the assumptions and obtained the relevant evidence to support these.

### Our results:

We concluded that the valuation of investment properties and disclosures of the associated level of uncertainty are acceptable.

total in this calculation as they are a non-operating asset that do not impact the core financial performance of the Company. Materiality for the Company was set at £23,750 and performance materiality at £11,750 based on our assessment of the control environment.

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £54,100 for the Group and £1,175 for the Parent.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included the following considerations.

We have reviewed and challenged management over the forecasts that support the Going Concern Statement and the Viability Statement. We have agreed the Group's borrowing facilities and the related covenants to supporting financing documentation and calculations. We have critically assessed the forecast cash flows with reference to budgeted and historic performance by agreeing the inputs and assumptions to supporting documentation. We have challenged the assumptions made by management by comparing them to historical performance and conducted sensitivity analysis on the key areas, such as rent recoverability and covenant compliance headroom with reference to future changes in property valuations and the Group's future financial performance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

# Independent Auditor's Report to the Members of Alternative Income REIT Plc continued

In relation to the Group's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements;

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

## Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the entity's compliance with the provisions of the UK Corporate Governance Code.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit.

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 30;
- Directors' explanation as their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 31;
- Directors' statement on whether it has a reasonable expectation that the group will be able to continue in operation and meet its liabilities set out on page 30;
- Directors' statement on fair, balance and understandable financial statements set out on page 49;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 24;
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 37;
- Section describing the work of the audit committee set out on pages 38 to 39.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the FRC's website at: <https://www.frc.org.uk/auditors/auditor-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor-s-responsibilities-for>

This description forms part of our auditor's report.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the Company.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory requirements applicable to the Company and considered that the most significant are the Companies Act 2006, UK adopted international financial reporting standards, the Listing Rules, the Disclosure and Transparency Rules, and the UK Real Estate Investment Trust ("REIT") regime.
- We obtained an understanding of how the Company complies with these requirements by discussions with management and those charged with governance.
- We assessed the risk of material misstatement of the financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management and those charged with governance.
- We inquired of management and those charged with governance as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and those charged with governance and obtaining additional corroborative evidence as required.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Other matters which we are required to address

We were appointed by the Board on 23 June 2021 to audit the financial statements for the period ended 30 June 2021. Our total uninterrupted periods of engagement is three years, covering the period ended 30 June 2022 to 30 June 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken for no purpose other than to draw to the attention of the Company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Company and Company's members as a body, for our work, for this report, or for the opinions we have formed.



### Jonathan Sutcliffe (Senior Statutory Auditor)

for and on behalf of Moore Kingston Smith LLP, Statutory Auditor  
29 September 2023

9 Appold Street  
London  
EC2A 2AP



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# Financial Statements

STRATEGIC REPORT

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GENERAL

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

		2023	2022
	Notes	£'000	£'000
<b>Income</b>			
Rental and other income	3	8,660	7,901
Property operating expense	4	(755)	(330)
<b>Net rental and other income</b>		<b>7,905</b>	<b>7,571</b>
Other operating expenses	4	(1,049)	(1,101)
<b>Operating profit before fair value changes and gain on sale</b>		<b>6,856</b>	<b>6,470</b>
Change in fair value of investment properties	10	(10,671)	8,023
Gain on disposal of investment property	10	–	96
<b>Operating (loss)/profit</b>		<b>(3,815)</b>	<b>14,589</b>
Finance expenses	6	(1,425)	(1,423)
<b>(Loss)/profit before tax</b>		<b>(5,240)</b>	<b>13,166</b>
Taxation	7	–	–
<b>(Loss)/profit and total comprehensive (loss)/income attributable to shareholders</b>		<b>(5,240)</b>	<b>13,166</b>
<b>(Loss per share)/earnings per share (basic and diluted)</b>	8	<b>(6.51p)</b>	<b>16.36p</b>
<b>EPRA EPS (basic and diluted)</b>	8	<b>6.75p</b>	<b>6.27p</b>
<b>Adjusted EPS (basic and diluted)</b>	8	<b>6.43p</b>	<b>5.57p</b>

All items in the above statement are derived from continuing operations.

The accompanying notes 1 to 21 form part of these Consolidated Financial Statements.

# Consolidated Statement of Financial Position

As at 30 June 2023

	Notes	2023 £'000	2022 £'000
<b>Assets</b>			
<b>Non-current Assets</b>			
Investment properties	10	103,847	115,124
<b>Current Assets</b>			
Receivables and prepayments	11	4,193	4,034
Cash and cash equivalents		3,484	2,542
		7,677	6,576
<b>Total Assets</b>		<b>111,524</b>	<b>121,700</b>
<b>Non-current Liabilities</b>			
Interest bearing loans and borrowings	13	(40,724)	(40,620)
Lease obligations	14	(266)	(299)
		<b>(40,990)</b>	<b>(40,919)</b>
<b>Current Liabilities</b>			
Payables and accrued expenses	12	(2,751)	(3,146)
Lease obligations	14	(33)	(36)
		(2,784)	(3,182)
<b>Total Liabilities</b>		<b>(43,774)</b>	<b>(44,101)</b>
<b>Net Assets</b>		<b>67,750</b>	<b>77,599</b>
<b>Equity</b>			
Share capital	17	805	805
Capital reserve		75,417	75,417
(Deficit)/retained earnings		(8,472)	1,377
<b>Total Equity</b>		<b>67,750</b>	<b>77,599</b>
<b>Net Asset Value per share (basic and diluted)</b>	8	<b>84.16p</b>	<b>96.40p</b>

The accompanying notes 1 to 21 form part of these Consolidated Financial Statements.

The Consolidated Financial Statements were approved by the Board of directors on 29 September 2023 and were signed on its behalf by:



**Simon Bennett**  
Chairman  
Company number: 10727886

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Notes	Share capital £'000	Capital reserve £'000	Retained earnings £'000	Total equity £'000
<b>For the year ended 30 June 2023</b>					
<b>Balance at 30 June 2022</b>		<b>805</b>	<b>75,417</b>	<b>1,377</b>	<b>77,599</b>
Total comprehensive loss attributable to shareholders		–	–	(5,240)	(5,240)
Dividends paid	9	–	–	(4,609)	(4,609)
<b>Balance at 30 June 2023</b>		<b>805</b>	<b>75,417</b>	<b>(8,472)</b>	<b>67,750</b>
<b>For the year ended 30 June 2022</b>					
<b>Balance at 30 June 2021</b>		<b>805</b>	<b>75,417</b>	<b>(7,329)</b>	<b>68,893</b>
Total comprehensive income attributable to shareholders		–	–	13,166	13,166
Dividends paid	9	–	–	(4,460)	(4,460)
<b>Balance at 30 June 2022</b>		<b>805</b>	<b>75,417</b>	<b>1,377</b>	<b>77,599</b>

The accompanying notes 1 to 21 form part of these Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Notes	2023 £'000	2022 £'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax		(5,240)	13,166
<b>Adjustment for:</b>			
Finance expenses	6	1,425	1,423
Gain on disposal of investment property	10	–	(96)
Change in fair value of investment properties	10	10,671	(8,023)
<b>Operating results before working capital changes</b>		<b>6,856</b>	<b>6,470</b>
<b>Change in working capital</b>			
Increase in receivables and prepayments		(159)	(352)
(Decrease)/increase in other payables and accrued expenses		(312)	100
<b>Net cash flow generated from operating activities</b>		<b>6,385</b>	<b>6,218</b>
<b>Cash flows from investing activities</b>			
Purchase of investment property	10	–	(5,375)
Net proceeds from disposal of investment property	10	–	5,396
Reduction in acquisition costs	10	606	–
<b>Net cash generated from investing activities</b>		<b>606</b>	<b>21</b>
<b>Cash flows from financing activities</b>			
Finance costs paid		(1,321)	(1,319)
Dividends paid	9	(4,692)	(4,455)
Payment of lease obligation		(36)	(38)
<b>Net cash used in financing activities</b>		<b>(6,049)</b>	<b>(5,812)</b>
Net increase in cash and cash equivalents		942	427
<b>Cash and cash equivalents at beginning of year</b>		<b>2,542</b>	<b>2,115</b>
<b>Cash and cash equivalents at end of year</b>		<b>3,484</b>	<b>2,542</b>

The accompanying notes 1 to 21 form part of these Consolidated Financial Statements.



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

## 1. Corporate Information

Alternative Income REIT plc (the 'Company') is a public limited company and a closed ended Real Estate Investment Trust ('REIT') incorporated on 18 April 2017 and domiciled in the UK and registered in England and Wales. The registered office of the Company is 1 King William Street, London, United Kingdom, EC4N 7AF.

The Company's Ordinary Shares were listed on the Official List of the FCA and admitted to trading on the Main Market of the London Stock Exchange on 6 June 2017.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 3 to 31.

## 2. Accounting policies

### 2.1 Basis of preparation

These consolidated financial statements (the 'financial statements') are prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('EU') and in accordance with the Companies Act 2006 and Article 4 of the International Accounting Standards ('IAS') Regulations.

These financial statements have been prepared under the historical-cost convention, except for investment properties that have been measured at fair value.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000), except where otherwise indicated.

### Basis of consolidation

The financial statements incorporate the financial statements of the Company and its subsidiaries (the 'Group').

Subsidiaries are the entities controlled by the Company, being Alternative Income Limited and Alternative Income REIT Holdco Limited.

### New standards, amendments and interpretations, and forthcoming requirements

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 July 2022:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) (effective 1 January 2023)
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (effective 1 January 2023)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) (effective 1 January 2023)
- Definition of Accounting Estimates (Amendments to IAS 8) (effective 1 January 2023)
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) (effective 1 January 2023)

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for annual periods beginning after 1 July 2022 and early application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements:

- Classification of liabilities as current or non-current (Amendments to IAS 1) (effective 1 January 2024)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) (effective 1 January 2024)
- Non-current Liabilities with Covenants (Amendments to IAS 1) (effective 1 January 2024)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective date deferred indefinitely).

### Forthcoming requirements

The following are new standards, interpretations and amendments, which are not yet effective, and have not been early adopted in this financial information, that will or may have an effect on the Group's future financial statements:

- Amendments to IAS 1 which clarifies the criteria used to determine whether liabilities are classified as current or non-current (effective 1 January 2023). These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The amendment is not expected to have an impact on the presentation or classification of the liabilities in the Group based on rights that are in existence at the end of the reporting period.

## 2.2 Significant accounting judgements and estimates

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future. The estimates and associated assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

### Valuation of investment properties

The fair value of investment properties is determined by external property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. The Group's properties have been valued on an individual basis. The valuation experts use recognised valuation techniques, applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation. Factors include current market conditions, annual rentals, the contractual terms of the leases and their lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in note 10.

### Provision for expected credit losses ('ECL') of trade receivables

Rent collection rates since the start of the Group are in the region of 100%. As a result, the Group does not have the data to establish historical loss rates for the expected credit loss analysis.

In determining the provision on a tenant by tenant basis, the Group considers both recent payment history and future expectations of the tenant's ability to pay or possible default, in order to recognise an expected credit loss allowance. The Group also considers the risk factors associated by sector in which the tenant operates and the nature of the debt. Based on sector and rent receivable type, a provision is provided in addition to full provision for maximum risk tenants or known issues.

### Principal versus agent considerations – services to tenants

The Group arranges for certain services to be provided to tenants. These arrangements are included in the contract the Group enters into as a lessor. The Group has determined that it controls the services before they are transferred to tenants, because it has the ability to direct the use of these services and obtain the benefits from them. The Group has determined that it is primarily responsible for fulfilling these services as it directly deals with tenants' complaints and is primarily responsible for the quality or sustainability of the services. In addition, the Group has discretion in establishing the price that it charges to the tenants for the specified services.

Therefore, the Group has concluded that it is the principal in these contracts. In addition, the Group has concluded that it transfers control of these services over time, as services are rendered by the third-party service providers, because this is when tenants receive and, at the same time, consume the benefits from these services.

### REIT status

The Group is a Real Estate Investment Trust (REIT) and does not pay tax on its property income or gains on property sales, provided that at least 90% of the Group's property income is distributed as a dividend to shareholders, which becomes taxable in their hands. In addition, the Group has to meet certain conditions such as ensuring the property rental business represents more than 75% of total profits and assets. Any potential or proposed changes to the REIT legislation are monitored and discussed with HMRC. It is the Board's intention that the Group will continue as a REIT for the foreseeable future.

### Classification of lease arrangements – the Group as lessor (note 14)

The Group has acquired investment properties that are leased to tenants. In considering the classification of lease arrangements, at inception of each lease the Group considers the economic life of the asset compared with the lease term and the present value of the minimum lease payments and any residual value compared with the fair value and associated costs of acquiring the asset as well as qualitative factors as indicators that may assert to the risks and rewards of ownership having been substantially retained or transferred. The Group has determined that it retains all the significant risks and rewards of ownership of its investment property and accounts for the lease arrangements as operating leases.

## 2.3 Segmental information

Each property held by the Group is reported to the chief operating decision maker. In the case of the Group, the chief operating decision maker is considered to be the Board of directors. The review process for segmental information includes the monitoring of key performance indicators applicable across all properties. These key performance indicators include Net Asset Value, Earnings per Share and valuation of properties. All asset cost and rental allocations are also reported by property. The internal financial reports received by the directors cover the Group and all its properties and do not differ from amounts reported in the financial statements. The directors have considered that each property has similar economic characteristics and have therefore aggregated the portfolio into one reportable segment under the provisions of IFRS 8.

## 2.4 Going concern

The financial statements have been prepared on a going concern basis.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The robust financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements and the accompanying notes. The financial statements also include the Group's objectives, policies and processes for managing its capital, its financial risk management objective and its exposures to market price risk, real estate risk, credit risk and liquidity risk.

The Investment Adviser on behalf of the Board has projected the Group's cash flows for the period up to 30 September 2024, challenging and sensitising inputs and assumptions to ensure that the cash forecast reflects a realistic outcome given the uncertainties associated with the current economic environment. The scenarios applied were designed to be severe but plausible, and to take account of the availability of mitigating actions that could be taken to avoid or reduce the impact or probability of the underlying risks.

The Group's debt of £41 million does not mature until 2025 and the Group has reported full compliance with its loan covenants to date. Based on cash flow projections, the directors expect the Group to continue to remain compliant. The headroom of the loan to value covenant is significant and any reduction in property values that would cause a breach would be significantly more than any reduction currently envisaged.

Based on the above, the Board believes that the Group has the ability and adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of the financial statements.

## Notes to the Consolidated Financial Statements continued

### 2.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### a) Functional and presentation currency

These financial statements are presented in Sterling, which is the functional and presentational currency of the Group and its subsidiary undertakings. The functional currency of the Group and its subsidiaries is principally determined by the primary economic environment in which it operates. The Group did not enter into any transactions in foreign currencies during the period.

#### b) Revenue recognition

##### i) Rental income

Rental income under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income, which is recognised when it arises. For leases, which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Lease modifications, such as lease extensions and rent reductions, are accounted for either as a separate lease or not a separate lease.

A modification will only be treated as a separate lease if it involves the addition of one or more underlying assets at a price that is commensurate with the standalone price of the increase in scope. All other modifications are not treated as a separate lease.

If a modification is a separate lease, a lessee applies the requirements of IFRS 16 to the newly added asset, due as a result of the modification, independently of the original lease. The accounting for the original lease continues unchanged.

If a modification is not a separate lease, the accounting reflects that there is a linkage between the original lease and the modified lease. The existing lease liability is remeasured with a corresponding adjustment to the right-of-use asset on the effective date of the modification.

##### ii) Service charges and direct recharges

Revenue from service charges is recognised in the accounting period in which the service is rendered. For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

##### iii) Deferred income

Deferred income is rental income received in respect of future accounting periods.

##### (iv) Dilapidation and lease surrender premium

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Consolidated Statement of Comprehensive Income when the right to receive them arises.

#### c) Financing income and expenses

Financing income comprises interest receivable on funds invested. Financing expenses comprise interest and other costs incurred in connection with the borrowing of funds. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method which is significantly the same as the contracted interest.

#### d) Investment property

Property is classified as investment property when it is held to earn rentals or for capital appreciation or both. Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes and professional fees to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the replacement of that part will prolong or improve the life of the asset.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss.

Investment properties are valued by the external valuer. Any valuation of investment properties by the external valuer must be undertaken in accordance with the current issue of RICS Valuation – Professional Standards (the 'Red Book').

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and yield applicable to those cash flows.

For the purposes of the financial statements, the assessed fair value is:

- reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives; and increased by the carrying amount of leasehold obligations.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected after its disposal or withdrawal.

The profit on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period. Any gains or losses on the retirement or disposal of investment property are recognised in profit or loss in the year of retirement or disposal.

**e) Cash and cash equivalents**

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less.

**f) Receivables and prepayments**

Rent and other receivables are initially recognised at fair value and subsequently at amortised cost. Impairment provisions are recognised based on the process as described in note 2.2. Any adjustment is recognised in profit or loss as an impairment gain or loss.

**g) Other payables and accrued expenses**

Other payables and accrued expenses are initially recognised at fair value and subsequently held at amortised cost.

**h) Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are amortised over the lifetime of the facilities through profit or loss.

**i) Provisions**

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

**j) Dividend payable to shareholders**

Equity dividends are recognised when they become legally payable.

**k) Share issue costs**

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity.

**l) Lease obligations**

Lease obligations relate to the head rent of investment property and are capitalised at the lease commencement, at the lower of fair value of the property and present value of the minimum lease payments and held as a liability within the Consolidated Statement of Financial Position. The lease payments are discounted using the interest rate implicit in the lease. Where the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

**m) Taxes**

Corporation tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Group is exempt from corporation tax on the profits and gains from its investments, provided it continues to meet certain conditions as per REIT regulations.

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Current tax is expected tax payable on any non-REIT taxable income for the year, using tax rates applicable in the year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the period end date.

**n) European Public Real Estate Association**

The Group has adopted the European Public Real Estate Association ('EPRA') best practice recommendations, which it expects to broaden the range of potential institutional investors able to invest in the Company's Ordinary Shares. For the year ended 30 June 2023, audited EPS and NAV calculations under EPRA's methodology are included in note 8 and further unaudited measures are included on page 66.

**o) Capital and reserves****Share capital**

Share capital is the nominal amount of the Company's Ordinary Shares in issue, and is non-distributable.

**Capital reserve**

The capital reserve is a distributable reserve and represents the cancelled share premium less dividends paid from this reserve.

**Retained earnings**

Retained earnings represent the profits of the Group less dividends paid from revenue profits to date.

## Notes to the Consolidated Financial Statements continued

**2.6 Fair value measurement**

The Group measures financial and non-financial assets such as investment properties at fair value at each reporting date.

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is defined in IFRS 13 Fair Value Measurement as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values have been determined for measurement and/or disclosure purposes based on methods described below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to fair value measurement as a whole:

**Fair value hierarchy:**

Level 1: Quoted prices (unadjusted) in active markets for identical assets or 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).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between any of the levels during the year.

**Investment property**

The valuation of investment property by valuers engaged by the Group who are independently appointed and have the relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Further information in relation to the valuers is provided in note 10.

Property valuations are inherently subjective as they are made on the basis of assumptions made by the valuer which may not prove to be accurate. For these reasons, and consistent with EPRA's guidance, we have classified the valuations of the property portfolio as Level 3 as defined by IFRS 13. The inputs to the valuations are defined as 'unobservable' by IFRS 13 and these are analysed in note 10.

**3. Rental and other income**

	2023	2022
	£'000	£'000
Gross rental income	7,429	7,036
Spreading of minimum contracted future rent – indexation	423	541
Spreading of tenant incentives – rent free periods	(58)	(73)
Other property income	294	1
<b>Gross rental income (adjusted)</b>	<b>8,088</b>	<b>7,505</b>
Service charges and direct recharges (see note 4)	572	396
<b>Total rental and other income</b>	<b>8,660</b>	<b>7,901</b>

All rental, service charges, direct recharges and other income are derived from the United Kingdom.

Other property income for the year ended 30 June 2023 mainly relates to the allocation to revenue of £219,000 arising from a settlement of the litigation in respect of replacement of defective cladding for Travelodge, Swindon. Further detail is provided in note 15.3.

## 4. Expenses

	2023	2022
	£'000	£'000
Property operating expenses	177	136
Service charges and direct recharges (see note 3)	572	396
Provision/(reversal) of provision for impairment of trade receivables	6	(202)
<b>Property operating expenses</b>	<b>755</b>	<b>330</b>
Investment adviser fee	371	368
Auditor's remuneration	87	63
Operating costs*	481	588
Directors' remuneration (note 5)	110	82
<b>Other operating expenses</b>	<b>1,049</b>	<b>1,101</b>
<b>Total operating expenses</b>	<b>1,804</b>	<b>1,431</b>
<b>Total operating expenses (excluding service charges and direct recharges)</b>	<b>1,232</b>	<b>1,035</b>

\* Included in the operating costs for year ended 30 June 2022 is £1,250 of fees paid to Stephanie Eastment for due diligence incurred in advance of her appointment as a director.

	2023	2022
	£'000	£'000
<b>Audit</b>		
Statutory audit of Annual Report and Accounts	76*	53
Statutory audit of Subsidiary Accounts	11	10
<b>Total fees due to auditor</b>	<b>87</b>	<b>63</b>

\*Include £6,000 fees relating to year ended 30 June 2022.

Moore Kingston Smith LLP has not provided any non-audit services to the Group.

## 5. Directors' remuneration

	2023	2022
	£'000	£'000
<b>Directors' fees</b>	<b>99</b>	<b>75</b>
Tax and social security	11	7
<b>Total fees</b>	<b>110</b>	<b>82</b>

A summary of the director's remuneration is set out in the Directors' Remuneration Report on page 44.

The Group had no employees during the year.

## 6. Finance expenses

	2023	2022
	£'000	£'000
Interest payable on loan (note 13)	1,307	1,307
Amortisation of finance costs (note 13)	104	104
Other finance costs	14	12
<b>Total</b>	<b>1,425</b>	<b>1,423</b>



## Notes to the Consolidated Financial Statements continued

## 7. Taxation

	2023	2022
	£'000	£'000
<b>Tax charge comprises:</b>		
<b>Analysis of tax charge in the year</b>		
<b>(Loss)/profit before tax</b>	<b>(5,240)</b>	<b>13,166</b>
Theoretical tax (refund)/charge at UK corporation tax standard rate of 20.50% (2022: 19.00%)	(1,074)	2,502
Effects of tax-exempt items under the REIT regime	(1,074)	(2,502)
<b>Total</b>	<b>-</b>	<b>-</b>

The Group maintained its REIT status and as such, no deferred tax asset or liability has been recognised in the current year.

**Factors that may affect future tax charges**

Due to the Group's status as a REIT and the intention to continue meeting the conditions required to retain approval as a REIT in the foreseeable future, the Group has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## 8. (Loss per share)/Earnings per share (EPS) and Net Asset Value (NAV) per share

	2023	2022
	£'000	£'000
<b>(Loss per share)/EPS:</b>		
Total comprehensive (loss)/income (£'000)	(5,240)	13,166
Weighted average number of shares (number)	80,500,000	80,500,000
<b>(Loss per share)/EPS (basic and diluted)</b>	<b>(6.51p)</b>	<b>16.36p</b>
<b>EPRA EPS (£'000):</b>		
Total comprehensive (loss)/income	(5,240)	13,166
Adjustment to total comprehensive income:		
Change in fair value of investment properties	10,671	(8,023)
Gain on disposal of investment property	-	(96)
<b>EPRA earnings (basic and diluted) (£'000)</b>	<b>5,431</b>	<b>5,047</b>
<b>EPRA EPS (basic and diluted)</b>	<b>6.75p</b>	<b>6.27p</b>
<b>Adjusted EPS:</b>		
EPRA earnings (basic and diluted) (£'000) – as above	5,431	5,047
Adjustments (£'000):		
Rental income recognised in respect of guaranteed fixed rental uplifts (note 3)	(423)	(541)
Rental income recognised in respect of rent free periods (note 3)	58	73
Amortisation of loan finance costs (note 6)	104	104
Write-off of rent	16	4
Reversal of provision for impairment of trade receivables (note 4)	(10)	(202)
<b>Adjusted earnings (basic and diluted) (£'000)</b>	<b>5,176</b>	<b>4,485</b>
<b>Adjusted EPS (basic and diluted)*</b>	<b>6.43p</b>	<b>5.57p</b>

\* Adjusted EPS is a measure used by the Board to assess the level of the Group's dividend payments. This metric adjusts EPRA earnings for non-cash items in arriving at an adjusted EPS as supported by cash flows.

Earnings per share are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	2023	2022
	£'000	£'000
<b>NAV per share:</b>		
Net assets (£'000)	67,750	77,599
Ordinary Shares (Number)	80,500,000	80,500,000
<b>NAV per share</b>	<b>84.16p</b>	<b>96.40p</b>

### EPRA Net Reinvestment Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV)

	EPRA NRV	EPRA NTA and EPRA NDV
<b>At 30 June 2023</b>		
Net assets value (£'000)	67,750	67,750
Purchasers' cost (£'000)	6,957	–
Break cost on bank borrowings (£'000)	–	–
	<b>74,707</b>	<b>67,750</b>
Ordinary Shares (Number)	80,500,000	80,500,000
<b>Per share measure</b>	<b>92.80p</b>	<b>84.16p</b>
<b>At 30 June 2022</b>		
Net assets value (£'000)	77,599	77,599
Estimated purchasers' cost (£'000)	7,664	–
Break cost on bank borrowings (£'000)	(486)	(486)
	84,777	77,113
Ordinary Shares (Number)	80,500,000	80,500,000
<b>Per share measure</b>	<b>105.31p</b>	<b>95.79p</b>

## 9. Dividends

All dividends were paid as PIDs

	Quarter Ended	Rate	2023 £'000	2022 £'000
<i>Dividends in respect of year ended 30 June 2021</i>				
4th dividend	30-Jun-21	1.640p	–	1,320
<i>Dividends in respect of year ended 30 June 2022</i>				
1st dividend	30-Sep-21	1.300p	–	1,047
2nd dividend	31-Dec-21	1.300p	–	1,046
3rd dividend	31-Mar-22	1.300p	–	1,047
4th dividend	30-Jun-22	1.600p	1,288	–
<i>Dividends in respect of year ended 30 June 2023</i>				
1st dividend	30-Sep-22	1.375p	1,107	–
2nd dividend	31-Dec-22	1.375p	1,107	–
3rd dividend	31-Mar-23	1.375p	1,107	–
<b>Total dividends paid*</b>			<b>4,609</b>	<b>4,460</b>
4th dividend	30-Jun-21	1.640p	–	(1,320)
4th dividend	30-Jun-22	1.600p	(1,288)	1,288
4th dividend**	30-Jun-23	1.920p	1,545	–
<b>Total dividends payable in respect of the year</b>			<b>4,866</b>	<b>4,428</b>
<b>Total dividends per share payable in respect of the year</b>			<b>6.045p</b>	<b>5.50p</b>

\* Dividends paid per Consolidated Statement of Cash Flows amount to £4,692,000 (2022: £4,455,000), the difference between the amount disclosed above is due to withholding tax.

\*\* Dividends declared after the year end are not included in the financial statements as a liability.

## Notes to the Consolidated Financial Statements continued

## 10. Investment properties

			2023	2022
	Freehold Investment properties £'000	Leasehold Investment properties £'000	Total £'000	Total £'000
At the beginning of the year	80,980	36,925	117,905	109,230
Acquisition during the year	–	–	–	5,375
Reduction in acquisition costs (note 15.3)	(606)	–	(606)	–
Disposal during the year	–	–	–	(5,300)
Change in value of investment properties	(6,549)	(3,725)	(10,274)	8,600
<b>Valuation provided by Knight Frank LLP</b>	<b>73,825</b>	<b>33,200</b>	<b>107,025</b>	<b>117,905</b>
Adjustment to fair value for minimum rent indexation of lease income (note 11)			(3,542)	(3,177)
Adjustment for lease obligations			364	396
<b>Total investment properties</b>			<b>103,847</b>	<b>115,124</b>
<b>Change in fair value of investment properties</b>				
Change in fair value before adjustments for lease incentives and lease obligations			(10,274)	8,600
Movement in lease obligations			(32)	(109)
Adjustment to spreading of contracted future rent indexation and tenant incentives			(365)	(468)
			<b>(10,671)</b>	<b>8,023</b>

There were no acquisitions nor disposals of properties in the year being reported. During 2022, the Group acquired the property known as Volvo, Slough and disposed of the investment property known as Audi, Huddersfield. The table below shows a reconciliation of the gain recognised on disposal through the Consolidated Statement of Comprehensive Income.

	2023	2022
	£'000	£'000
<b>Gross proceeds on disposal</b>	<b>–</b>	<b>5,500</b>
Selling costs	–	(104)
<b>Net proceeds on disposal</b>	<b>–</b>	<b>5,396</b>
Carrying value	–	(5,300)
<b>Gain on disposal of investment property</b>	<b>–</b>	<b>96</b>

## Valuation of investment properties

Valuation of investment properties is performed by Knight Frank LLP, an accredited external valuer with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued. The valuation of the Group's investment properties at fair value is determined by the external valuer on the basis of market value in accordance with the internationally accepted RICS Valuation – Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and yield applicable to those cash flows.

The right of use asset is valued at future lease payments discounted using the net equivalent yield on the relevant asset.

## Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the fair value hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of investment properties are:

## 1) Estimated Rental Value ('ERV')

## 2) Net Initial Yield

Increases/(decreases) in the ERV (per sq. ft. per annum) in isolation would result in a higher/(lower) fair value measurement. Increases/(decreases) in the yield in isolation would result in a lower/(higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement, categorised within Level 3 of the fair value hierarchy of the portfolio of investment property and investments are:

Class	Fair value £'000	Valuation technique	Significant unobservable inputs	Range
<b>30 June 2023</b>				
Investment Properties*	107,025	Income capitalisation	ERV Net Initial yield	£4.39 – £21.97 4.70% – 10.25%**
<b>30 June 2022</b>				
Investment Properties*	117,905	Income capitalisation	ERV Net Initial yield	£4.00 – £21.96 4.65% – 9.16%**

\* Valuation per Knight Frank LLP

\*\*Hotels, petrol stations, residential & healthcare are excluded from this range

Sensitivity analysis below.

Sensitivity Analysis	2023		2022	
	Change in ERV		Change in net initial yield	
	£'000	£'000	£'000	£'000
Resulting fair value of investment properties	+10%	-10%	+10%	-10%
	109,412	104,542	101,214	114,027
	2023		2022	
	Change in ERV		Change in net initial yield	
	£'000	£'000	£'000	£'000
Sensitivity Analysis	+10%	-10%	+10%	-10%
Resulting fair value of investment properties	121,583	114,850	111,837	126,023

## 11. Receivables and prepayments

	2023	2022
	£'000	£'000
<b>Receivables</b>		
Trade debtor	122	284
Less: Provision for impairment of trade receivables	(2)	(11)
Other debtors	326	244
<b>Total receivables and prepayments</b>	<b>446</b>	<b>517</b>
Spreading of minimum contracted future rent indexation	3,132	2,709
Spreading of tenant incentives – rent free periods	410	468
	<b>3,542</b>	<b>3,177</b>
Tenant deposit asset (note 12)	118	118
Other prepayments	87	222
	<b>205</b>	<b>340</b>
<b>Total receivables and prepayments</b>	<b>4,193</b>	<b>4,034</b>

## Notes to the Consolidated Financial Statements continued

The aged debtor analysis of receivables which are past due but not impaired is as follows:

	2023	2022
	£'000	£'000
Less than 3 months due	464	515
Between 3 and 6 months due	(18)	2
Between 6 and 12 months due	–	–
	<b>446</b>	<b>517</b>

## 12. Payables and accrued expenses

	2023	2022
	£'000	£'000
Deferred income	1,568	1,501
Trade creditors	24	51
Accruals	374	576
Tenant deposit liability (note 11)	118	118
Loan interest payable (note 13)	258	258
Other creditors	409	642
	<b>2,751</b>	<b>3,146</b>

## 13. Interest bearing loans and borrowings

	2023	2022
	£'000	£'000
<b>Facility drawn</b>	<b>41,000</b>	<b>41,000</b>
Unamortised finance costs brought forward	(380)	(484)
Amortisation of finance costs	104	104
<b>At end of year</b>	<b>40,724</b>	<b>40,620</b>
Repayable between 1 and 2 years	–	–
Repayable between 2 and 5 years	41,000	41,000
Repayable in over 5 years	–	–
<b>Total at end of the year</b>	<b>41,000</b>	<b>41,000</b>

At 30 June 2023, the Group had utilised all of its £41 million fixed interest loan facility with Canada Life Investments and was geared at a loan to Gross Asset Value ('GAV') of 36.8% (2022: 33.7%). The weighted average interest cost of the Group's facility is 3.19% and the facility is repayable on 20 October 2025. Interest expense incurred during the year amounted to £1.31 million (2022: £1.31 million), £0.26 million was outstanding as at 30 June 2023 (2022: £0.26 million). The loan is secured against 17 properties in the Group's portfolio.

	2023	2022
	£'000	£'000
<b>Reconciliation to cash flows from financing activities</b>		
<b>At beginning of the year</b>	<b>40,620</b>	<b>40,516</b>
<b>Non-cash changes</b>		
Amortisation of loan issue costs	104	104
<b>Total at end of the year</b>	<b>40,724</b>	<b>40,620</b>

## 14. Lease obligations

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid on that date.

The following table analyses the minimum lease payments due under non-cancellable leases:

	2023	2022
	£'000	£'000
Within 1 year	50	50
After 1 year but not more than 5 years	150	150
More than 5 years	463	513
<b>Total undiscounted lease liabilities</b>	<b>663</b>	<b>713</b>
Less: Future finance charge on lease obligations	(364)	(378)
<b>Present value of lease liabilities</b>	<b>299</b>	<b>335</b>
<b>Lease liabilities included in the Consolidated Statement of Financial Position</b>		
Current	33	36
Non-current	266	299
	<b>299</b>	<b>335</b>

## 15. Commitments

### 15.1. Operating lease commitments – as lessor

The Group has 19 commercial properties with 33 units on its investment property portfolio as set out on pages 16 to 19. These non-cancellable leases have a remaining term of between 10 months and 111 years (2022: 7 months to 112 years), excluding ground leases.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2023 are as follows:

	2023	2022
	£'000	£'000
Within 1 year	7,179	7,071
After 1 year, but not more than 2 years	6,804	7,015
After 2 years, but not more than 3 years	6,548	6,754
After 3 years, but not more than 4 years	7,034	7,011
After 4 years, but not more than 5 years	6,416	7,045
After 5 years, but not more than 10 years	28,307	29,896
After 10 years, but not more than 15 years	24,085	25,935
More than 15 years	50,689	55,472
	<b>137,062</b>	<b>146,199</b>

During the year ended 30 June 2023 there were no material contingent rents recognised as income (2022: £Nil).

### 15.2. Capital commitments

There were no capital commitments at 30 June 2023 (2022: none).



## Notes to the Consolidated Financial Statements continued

**15.3. Financial commitments**

In the 2022 Annual Report, it was disclosed that the Group was involved in litigation against two parties to recover £1.1 million of costs. The costs were incurred for work in the period September to December 2020 to replace defective cladding elements uncovered in the external walls of the top floors and rear lift core of the Travelodge Hotel, Swindon. The defective cladding was installed when the property was extended in 2007 and the Group's claims were against the architect and cladding sub-contractor involved. During the year, the Board engaged in mediation with both parties and agreed a full and final settlement of £825,000. Consequent to the resolution of that litigation, the Group have no financial commitments other than those arising from its normal business operations.

The settlement was in respect of the Group's costs to replace the defective cladding, which had been charged to capital, and in respect of the professional fees incurred by the Group to undertake the litigation, which had been charged to revenue. Accordingly, the settlement has been proportionally allocated £606,000 to capital, as a reduction in acquisition costs (see note 10), and £219,000 to revenue, as other property income (see note 3).

There are no other commitments other than those shown above at the year end (2022: same).

**16. Investments in subsidiaries**

The Company has two wholly owned subsidiaries as disclosed below:

Name and company number	Country of registration and incorporation	Date of incorporation	Principal activity	Ordinary Shares held
Alternative Income REIT Holdco Limited (Company number 11052186)	England and Wales	7 Nov 2017	Real Estate Company	73,158,502*
Alternative Income Limited (Company number 10754641)	England and Wales	4 May 2017	Real Estate Company	73,158,501*

\* Ordinary shares of £1.00 each.

Alternative Income REIT Plc as at 30 June 2022 owns 100% of Alternative Income REIT Holdco Limited.

Alternative Income REIT Holdco Limited holds 100% of Alternative Income Limited.

Both Alternative Income REIT Holdco Limited and Alternative Income Limited are registered at 1 King William Street, London, United Kingdom, EC4N 7AF.

**17. Issued share capital**

	2023		2022	
	£'000	Number of Ordinary Shares	£'000	Number of Ordinary Shares
<b>Ordinary Shares of £0.01 each issued and fully paid</b>				
At the beginning and end of the year	805	80,500,000	805	80,500,000

**18. Financial risk management and policies**

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and further risks inherent to investing in investment property. The Group has limited exposure to foreign currency risk as most of its transaction is in Sterling. The Group's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The principal risks facing the Group in the management of its portfolio follows.

**18.1 Market price risk**

Market price risk is the risk that future values of investments in property will fluctuate due to changes in market prices. To manage market price risk, the Group diversifies its portfolio geographically in the UK and across property sectors.

The disciplined approach to the purchase, sale and asset management ensures that the value is maintained to its maximum potential. Prior to any property acquisition or sale, detailed research is undertaken to assess expected future cash flow. The Board and the Investment Adviser meet regularly and are responsible for recommending investment purchases or sales to the AIFM which makes the ultimate decision. In order to monitor property valuation fluctuations, the Investment Adviser meets with the independent external valuer on a regular basis. The valuer provides a property portfolio valuation quarterly, so any movements in the value can be accounted for in a timely manner and reflected in the NAV every quarter.

## 18.2 Real estate risk

Property investments are illiquid assets and can be difficult to sell, especially if local market conditions are poor. Illiquidity may also result from the absence of an established market for investments, as well as legal or contractual restrictions on resale of such investments.

There can be no certainty regarding the future performance of any of the properties acquired for the Group. The value of any property can go down as well as up.

Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income generated and expenses incurred from such investments.

There are additional risks in vacant, part vacant, redevelopment and refurbishment situations, although these are not prospective investments for the Group.

These aspects, and their effect on the Group from a going concern perspective are discussed in more detail in the Going Concern policy note.

## 18.3 Credit risk

Credit risk is the risk that the counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Group by failing to meet a commitment it has entered into with the Group.

It is the Group's policy to enter into financial instruments with reputable counterparties. All cash deposits are placed with an approved counterparty, Barclays International.

In respect of property investments, in the event of a default by a tenant, the Group will suffer a rental shortfall and additional costs concerning re-letting the property. The Investment Adviser monitors tenant arrears in order to anticipate and minimise the impact of defaults by occupational tenants.

The table below shows the Group's exposure to credit risk:

	2023	2022
	£'000	£'000
Debtors	448	528
Cash and cash equivalents	3,484	2,542
<b>Total</b>	<b>3,932</b>	<b>3,070</b>

## 18.4 Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its borrowings.

It is the risk the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are investment properties and therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by quarterly review/monitoring of forecast and actual cash flows by the Investment Adviser and Board.

The below table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand £'000	< 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	> 5 years £'000	Total £'000
<b>2023</b>						
Interest bearing loans and borrowings	–	–	–	41,000	–	41,000
Interest payable	–	327	980	1,959	–	3,266
Payables and accrued expenses	24	651	–	–	–	675
Lease obligations	–	13	38	200	413	664
<b>Total</b>	<b>24</b>	<b>991</b>	<b>1,018</b>	<b>43,159</b>	<b>413</b>	<b>45,605</b>

	On demand £'000	< 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	> 5 years £'000	Total £'000
<b>2022</b>						
Interest bearing loans and borrowings	–	–	–	41,000	–	41,000
Interest payable	–	327	980	3,266	–	4,573
Payables and accrued expenses	134	863	–	–	–	997
Lease obligations	–	13	38	200	463	714
<b>Total</b>	<b>134</b>	<b>1,203</b>	<b>1,018</b>	<b>44,466</b>	<b>463</b>	<b>47,284</b>

## Notes to the Consolidated Financial Statements continued

### 18.5 Fair value of financial instruments

There is no material difference between the carrying amount and fair value of the Group's financial instruments.

### 18.6 Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is minimal because the Group's loan is at a fixed rate of 3.19% (note 13).

## 19. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

To enhance returns over the medium term, the Group utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Group's policy is to borrow up to a maximum of 40% loan to GAV (measured at drawdown). Alongside the Group's borrowing policy, the directors intend, at all times, to conduct the affairs of the Group so as to enable the Group to qualify as a REIT for the purposes of Part 12 of the Corporation Tax Act 2010 (and the regulations made thereunder). The REIT status compliance requirements include 90% distribution test, interest cover ratio, 75% assets test and the substantial shareholder rule, all of which the Group remained compliant in both this and the prior year.

The monitoring of the Group's level of borrowing is performed primarily using a Loan to GAV ratio. The Loan to GAV ratio is an alternative performance measure and its calculation is shown on page 83. The Group Loan to GAV ratio at the year end was 36.8% (2022: 33.7%).

Breaches in meeting the financial covenants would permit the lender to immediately call loans and borrowings. During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

## 20. Transactions with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### Directors

Directors of the Group are related party. Directors' remuneration is disclosed in note 5.

### Investment Adviser

M7 Real Estate Limited

M7 Real Estate Ltd was appointed as Investment Adviser on 14 May 2020. The Interim Investment Advisory agreement (amended with Deed of Variation dated 21 February 2021) specifies that from 1 October 2020, the annual management fee is calculated at a rate equivalent of 0.50% per annum of NAV (subject to a minimum fee of £90,000 per quarter), payable quarterly in advance, with no fee payable from 14 May to 30 September 2020. During the year ended 30 June 2023, the Group incurred £371,000 (2022: £368,000) in respect of investment advisory fees, none of which was outstanding at 30 June 2023 (2022: £98,000).

## 21. Events after reporting date

### Dividend

On 3 August 2023, the Board approved the interim dividend for the quarter ended 30 June 2023 of 1.92pps. This was paid on 25 August 2023 to shareholders on the register at 11 August 2023. The ex-dividend date was 10 August 2023. The dividend was paid as a PID. Details are disclosed in the Chair's Statement on page 6.

### Sale of property

On 8 August 2023, the Group completed the disposal of Mercure Hotel, Ingram Street, Glasgow to the occupier for £7.5 million, a 7.9% premium on the book value at 30 June 2023. The net proceeds from the sale have been deposited to the lenders bank account and the Board intends to reinvest this as soon as practical.

# Company Statement of Financial Position

As at 30 June 2023

	Notes	2023 £'000	2022 £'000
<b>Assets</b>			
<b>Non-current Assets</b>			
Investments in subsidiary companies	2	73,158	73,158
Investment property	2	1,814	2,153
		<b>74,972</b>	<b>75,311</b>
<b>Current Assets</b>			
Receivables and prepayments	3	169	159
Cash and cash equivalents		525	66
		<b>694</b>	<b>225</b>
<b>Total Assets</b>		<b>75,666</b>	<b>75,536</b>
<b>Current Liabilities</b>			
Payables and accrued expenses	4	(8,979)	(13,035)
<b>Net Assets</b>		<b>66,687</b>	<b>62,501</b>
<b>Equity</b>			
Share capital	6	805	805
Capital reserve		75,417	75,417
Defecit		(9,535)	(13,721)
<b>Total capital and reserves attributable to equity holders of the Company</b>		<b>66,687</b>	<b>62,501</b>
<b>Net Asset Value per share (pence per share)</b>		<b>82.84p</b>	<b>77.64p</b>

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements.

The Company's profit for the year was £8,795,000 (2022: loss of £8,141,000).

The financial statements on pages 54 to 79 were approved by the Board on 29 September 2023 and were signed on its behalf by:

Simon Bennett  
Chairman  
Company number: 10727886

The accompanying notes 1 to 8 form an integral part of these financial statements.

# Company Statement of Changes in Equity

For the year ended 30 June 2023

	Share capital £'000	Capital reserve £'000	Defecit £'000	Total equity £'000
<b>For the year ended 30 June 2023</b>				
<b>Balance at 30 June 2022</b>	<b>805</b>	<b>75,417</b>	<b>(13,721)</b>	<b>62,501</b>
Total comprehensive income	–	–	8,795	8,795
Dividends paid	–	–	(4,609)	(4,609)
<b>Balance at 30 June 2023</b>	<b>805</b>	<b>75,417</b>	<b>(9,535)</b>	<b>66,687</b>
<b>For the year ended 30 June 2022</b>				
<b>Balance at 30 June 2021</b>	<b>805</b>	<b>75,417</b>	<b>(17,402)</b>	<b>58,820</b>
Total comprehensive income	–	–	8,141	8,141
Dividends paid	–	–	(4,460)	(4,460)
<b>Balance at 30 June 2022</b>	<b>805</b>	<b>75,417</b>	<b>(13,721)</b>	<b>62,501</b>

The accompanying notes 1 to 8 form an integral part of these financial statements.

# Notes to the Company Financial Statements

For the year ended 30 June 2023

## 1. Accounting policies

### Basis of preparation

These financial statements are prepared and approved by the directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

As permitted by FRS 101, the Company has taken advantage of the following disclosures exemptions which are permissible under FRS 101 as the equivalent disclosures are contained within the Group's consolidated financial statements.

- a cash flow statement and related notes;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- the disclosures of the remuneration of key management personnel;
- disclosure of related party transactions with other wholly owned members of the Ultimate Parent;
- the disclosure of financial instruments and other fair value measurements.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000), except when otherwise indicated. They have been prepared on the historical cost basis.

The principal accounting policies adopted in the preparation of the Company's financial statements are consistent with the Group which are described in note 2.5 of the Consolidated Financial Statements but makes amendments where necessary in order to comply with the Companies Act 2006 and taking advantage of the FRS 101 exemptions mentioned above.

New standards effective for the current accounting period do not have a material impact on the financial statements of the Company.

The accounting policies used are otherwise consistent with those contained in the Company financial statements for the year ended 30 June 2022.

### Going concern

The financial statements have been prepared on a going concern basis.

For an assessment of going concern refer to the accounting policy 2.4 of the Consolidated Financial Statements.

### Investments in subsidiary companies

Investments in subsidiary companies which are all 100% owned by the Company are included in the statement of financial position at cost less provision for impairment.

### Impairment of non-financial assets

The carrying amounts of the Company's investment in subsidiaries are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Deferred income

Deferred income is rental income received in respect of future accounting periods.

Notes to the Company Accounts continued

## 2. Investments

### 2a. Investments in Subsidiary Companies

	2023	2022
	£'000	£'000
<b>At the beginning and end of the year</b>	<b>73,158</b>	<b>73,158</b>

A list of subsidiary undertakings at 30 June 2023 is included on note 16 of the Consolidated Financial Statements.

The directors have considered the recoverability of the investment in subsidiary companies by comparing the carrying value of the investment to the net asset value of the subsidiary. The directors consider the net asset value of the subsidiary to be a reliable proxy to the recoverable amount as the properties held by the Company are carried at fair value. The net asset value of the subsidiary company exceed the carrying amount of the investment in subsidiary and the directors have concluded that no impairment is necessary.

### 2b. Investment property

	2023	2022
	£'000	£'000
At the beginning of the year	2,153	2,067
Revaluation of investment property	(325)	100
Adjustment to fair value for minimum rent indexation of lease income	(14)	(14)
	<b>1,814</b>	<b>2,153</b>

## 3. Receivables and prepayments

	2023	2022
	£'000	£'000
Rent debtor	5	32
Spreading of contracted future – rent indexation	61	40
VAT receivable	72	59
	<b>138</b>	<b>131</b>
Other prepayments	31	28
	<b>169</b>	<b>159</b>

## 4. Payables and accrued expenses

	2023	2022
	£'000	£'000
Due to subsidiaries	8,644	12,427
Deferred income	30	30
Trade creditors	5	35
Accruals	300	459
Other creditors	–	84
	<b>8,979</b>	<b>13,035</b>

Amounts due to subsidiaries are unsecured, interest free and repayable on demand.



## 5. Dividends paid and payable

Details of dividends paid and payable in respect of the year are set out in note 9 of the consolidated financial statements.

## 6. Issued share capital

	2023		2022	
	£'000	Number of Ordinary Shares	£'000	Number of Ordinary Shares
<b>Ordinary Shares of £0.01 each issued and fully paid</b>				
At the beginning and end of the year	805	80,500,000	805	80,500,000

## 7. Contingent liabilities, capital commitments and related party transactions

As at 30 June 2023 the Company had £nil contingent liabilities or capital commitments (2022: £nil).

Related party transactions are the same for the Company as for the Group. For details refer to note 20 of the Consolidated Financial Statements.

## 8. Events after reporting date

Events after the reporting date are the same as those disclosed in note 21 of the consolidated financial statements.

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# General

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

GENERAL

# EPRA Performance Measures

(Unaudited)

		2023	2022
		£'000	£'000
<b>EPRA Yield calculations</b>			
Investment properties wholly owned:			
– by Company		1,875	2,200
– by Alternative Income Limited		105,150	115,705
<b>Total – note 10</b>		<b>107,025</b>	<b>117,905</b>
Allowance for estimated purchasers' costs – note 8		6,957	7,665
<b>Gross up completed property portfolio valuation</b>	B	<b>113,982</b>	<b>125,570</b>
Annualised cash passing rental income		7,560	7,217
Annualised property outgoings		(55)	(55)
<b>Annualised net rents</b>	A	<b>7,505</b>	<b>7,162</b>
Add: notional rent expiration of rent-free periods or other lease incentives		563	893
<b>Topped-up net annualised rent</b>	C	<b>8,068</b>	<b>8,055</b>
<b>EPRA NIY</b>	A/B	<b>6.58%</b>	<b>5.70%</b>
<b>EPRA 'topped-up' NIY</b>	C/B	<b>7.08%</b>	<b>6.41%</b>

		2023	2022
		£'000	£'000
<b>EPRA Cost Ratios</b>			
Include:			
EPRA Costs (including direct vacancy costs) – note 4	A	1,232	1,035
Direct vacancy costs		–	–
EPRA Costs (excluding direct vacancy costs)	B	1,232	1,035
Gross rental income (adjusted) – note 3	C	8,088	7,505
<b>EPRA Cost Ratio (including direct vacancy costs)</b>	A/C	<b>15.23%</b>	<b>13.79%</b>
<b>EPRA Cost Ratio (excluding direct vacancy costs)</b>	B/C	<b>15.23%</b>	<b>13.79%</b>

		2023	2022
		£'000	£'000
<b>EPRA Vacancy rate</b>			
Annualised potential rental value of vacant premises	A	–	–
Annualised potential rental value for the completed property portfolio	B	7,040	6,987
<b>EPRA Vacancy rate</b>	A/B	<b>0.00%</b>	<b>0.00%</b>

# Alternative Performance Measures (APMs)

APMs are numerical measures of the Group's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Group's applicable financial framework is IFRS. The directors assess the Group's performance against a range of criteria which are reviewed as particularly relevant for a closed-end REIT.

## Discount

The discount is the amount by which the share price is lower than the net asset value per share, expressed as a percentage of the net asset value per share.

		2023	2022
NAV per Ordinary Share	A	84.16p	96.40p
Share price	B	64.70p	82.10p
Discount	(A-B)/A	23.12%	14.83%

## Dividend Cover

The ratio of Group's Adjusted EPS divided by the Group's dividends payable for the relevant year.

		2023	2022
Adjusted EPS	A	6.43p	5.57p
Dividend per share	B	6.045p	5.50p
Dividend cover	A/B	106.37%	101.27%

## Dividend Yield

The ratio of Group's annual dividends per share divided by the Group's share price for the relevant year.

		2023	2022
Annual dividends paid	A	6.045p	5.50p
Share price	B	64.70	82.10
Dividend yield	A/B	9.34%	6.70%

## Loan to GAV

Loan to GAV measures the value of loans and borrowings utilised (excluding amounts held as restricted cash and before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the valuer) and the fair value of other assets.

		2023	2022
Borrowings (£'000)	A	41,000	41,000
Total assets (£'000)	B	111,524	121,700
Loan to GAV	A/B	36.76%	33.69%

## Alternative Performance Measures (APMs) continued

## Ongoing Charges

The ongoing charges ratio is the total for all operating costs expected to be regularly incurred expressed as a percentage of the average quarterly NAVs of the Group for the financial year.

		2023	2022
Other operating expenses for the year (£'000)	A	1,049	1,101
<b>One-off website costs (£'000)*</b>	B	<b>(40)</b>	–
<b>One-off legal fees (£'000)**</b>	C	–	<b>(64)</b>
	D=A+B+C	1,009	1,037
Average net assets (£'000)	E	72,675	73,246
<b>Ongoing charges ratio</b>	D/E	<b>1.39%</b>	<b>1.42%</b>

\* Non-recurring website set up costs have been excluded in the amount for the year presented.

\*\*Non-recurring legal and professional costs have been excluded in the amount for the year presented.

## Share Price and Net Asset Value (NAV) Total Return

Share price and NAV total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. Share price and NAV total returns are monitored against FTSE EPRA Nareit UK and FTSE Small Cap, respectively.

		Share price	NAV
Opening at 30 June 2022	a	82.10	96.40p
Closing at 30 June 2023	b	64.70	84.16p
Return	c=(b/a)-1	(21.19%)	(12.69%)
Dividend reinvestment*	d	6.97%	5.97%
Total return for the year ended 30 June 2023	c+d	(14.22%)	(6.72%)
Opening at 30 June 2021	a	71.00	85.58p
Closing at 30 June 2022	b	82.10	96.40p
Return	c=(b/a)-1	15.63%	12.64%
Dividend reinvestment*	d	8.70%	9.88%
Total return for the year ended 30 June 2022	c+d	24.33%	22.52%

\* Share price total return involves reinvesting the net dividend in the share price of the Company on the date on which that dividend goes ex-dividend. NAV total return involves investing the net dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend.

# Glossary

<b>Alternative Investment Fund Manager or AIFM or Investment Manager</b>	Langham Hall Fund Management LLP.
<b>Company</b>	Alternative Income REIT plc.
<b>Contracted rent</b>	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
<b>Earnings Per Share ('EPS')</b>	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
<b>EPRA</b>	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
<b>Estimated Rental Value ('ERV')</b>	The external valuer's opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
<b>External Valuer</b>	An independent external valuer of a property. The Group's External Valuer is Knight Frank LLP.
<b>Fair value</b>	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
<b>Fair value movement</b>	An accounting adjustment to change the book value of an asset or liability to its fair value.
<b>FCA</b>	The Financial Conduct Authority.
<b>Gross Asset Value ('GAV')</b>	The aggregate value of the total assets of the Group as determined in accordance with IFRS.
<b>Gross Passing Rental Income</b>	The gross passing rent is the rent roll at the reporting date, taking account of any in-place rent free incentives or step rents on a straight-line basis over the following 12-month period.
<b>IASB</b>	International Accounting Standards Board.
<b>IFRS</b>	International financial reporting standards. On 31 December 2020 EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board.
<b>Investment Adviser</b>	M7 Real Estate Limited.



## Glossary continued

<b>IPO</b>	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and admission of Ordinary Shares to the premium listing segment of the Official List on 6 June 2017.
<b>Lease incentives</b>	Incentives offered to occupiers to enter into a lease. Typically, this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules, the value of the lease incentive is amortised through the Consolidated Statement of Comprehensive Income on a straight-line basis until the lease expiry.
<b>Loan to Value ('LTV')</b>	The value of loans and borrowings utilised (excluding amounts held as restricted cash and before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the valuer) and the fair value of other investments.
<b>Net Asset Value ('NAV')</b>	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
<b>Net Asset Value per share</b>	Equity shareholders' funds divided by the number of Ordinary Shares in issue.
<b>Net equivalent yield</b>	Calculated by the Group's External Valuers, net equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.
<b>Net Initial Yield ('NIY')</b>	The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.  Initial yield does not include cost of purchase.
<b>Net rental income</b>	Rental income receivable in the period after payment of ground rents and net property outgoings.
<b>Ordinary Shares</b>	The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.
<b>REIT</b>	A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation Tax Act 2010. Subject to the continuing relevant UK REIT criteria being met, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
<b>Reversion</b>	Increase in rent estimated by the Company's External Valuers, where the passing rent is below the ERV.
<b>Share price</b>	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.
<b>Weighted Average Unexpired Lease Term ('WAULT')</b>	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees).

# Company Information

## Share Register Enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on 0370 707 1874 or email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk).

Changes of name and/or address must be notified in writing to the Registrar, at the address shown below. You can check your shareholding and find practical help on transferring shares or updating your details at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). Shareholders eligible to receive dividend payments gross of tax may also download declaration forms from that website.

## Share Information

Ordinary £0.01 shares	80,500,000
SEDOL Number	BDVK708
ISIN Number	GB00BDVK7088
Ticker/TIDM	AIRE

## Share Prices

The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.

## Frequency of NAV publication

The Group's NAV is released to the London Stock Exchange on a quarterly basis and is published on the Company's website [www.alternativeincomereit.com](http://www.alternativeincomereit.com).

## Annual and Interim Reports

Copies of the Annual and Half-Yearly Reports are available from the Group's website.

## Financial Calendar 2023

30 June 2023	Year end
October 2023	Announcement of annual results
15 November 2023	Annual General Meeting
31 December 2023	Half year end
March 2024	Announcement of interim results

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# Shareholder Information

## Directors

**Simon Bennett** (independent non-executive chairman)  
**Stephanie Eastment** (independent non-executive director)  
**Adam Smith** (non-executive director)

## Investment Adviser and Administrator

M7 Real Estate Limited  
3rd Floor  
The Monument Building  
11 Monument Street  
London  
EC3R 8AF

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## Company Website

<https://www.alternativeincomereit.com/>

## Property Manager

Mason Owen and Partners Limited  
7th Floor  
20 Chapel Street  
Liverpool  
L3 9AG

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## Registered Office

1 King William Street  
London  
EC4N 7AF

## Valuer

Knight Frank LLP  
55 Baker Street  
London  
W1U 8AN

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## Company Secretary

Hanway Advisory Limited  
1 King William Street  
London  
EC4N 7AF

## Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS13 8AE

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## AIFM

Langham Hall Fund Management LLP  
1 Fleet Place  
8th Floor  
London  
EC4M 7RA

## Auditor

Moore Kingston Smith LLP  
9 Appold Street  
London  
EC2A 2AP

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## Depository

Langham Hall UK Depository LLP  
8th Floor  
1 Fleet Place  
London  
EC4M 7RA

## Corporate Broker

Panmure Gordon (UK) Limited  
One New Change  
London  
EC4M 9AF

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## Legal Adviser to the Company

Travers Smith LLP  
10 Snow Hill  
London  
EC1A 2AL

## Communications Adviser

H/Advisors Maitland  
3 Pancras Square  
London  
N1C 4AG

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# Notice of Annual General Meeting

If you are in any doubt as to what action to take you are recommended to consult your stockbroker, solicitor, accountant or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your ordinary shares in Alternative Income REIT plc, you should pass this document, together with the accompanying Form of Proxy, to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.

## ALTERNATIVE INCOME REIT PLC

*(Incorporated in England and Wales with registered number 10727886)*

Notice of the Annual General Meeting which has been convened for Wednesday 15 November 2023 at 10 a.m. at The Monument Building, 11 Monument Street, London EC3R 8AF is set out below.

To be valid, Forms of Proxy must be completed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY as soon as possible and in any event not later than 10 a.m. on Monday 13 November 2023.

## Notice of Annual General Meeting continued

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Alternative Income REIT plc (the “**Company**”) will be held at 10 a.m. on Wednesday 15 November 2023 to transact the following business.

You will be asked to consider and, if thought fit, approve the following resolutions. Resolutions 1 to 10 (inclusive) will be proposed as ordinary resolutions and resolutions 11 to 14 (inclusive) will be proposed as special resolutions.

## Ordinary Resolutions

### Report and Accounts

1. To receive and adopt the audited financial statements of the Company for the financial year ended 30 June 2023 and the reports of the directors and auditor on those financial statements (“**Annual Report and Accounts**”).

### Directors’ Remuneration Report

2. To approve the Directors’ Remuneration Report (excluding the part containing the Directors’ Remuneration Policy) contained within the Annual Report and Accounts.

### Directors’ Remuneration Policy

3. To approve the Directors’ Remuneration Policy contained in the Annual Report and Accounts.

### Directors

4. To elect Simon Bennett as a director of the Company.
5. To re-elect Stephanie Eastment as a director of the Company.
6. To re-elect Adam Smith as a director of the Company.

### Auditor

7. To re-appoint Moore Kingston Smith LLP as independent auditor of the Company, to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company.
8. To authorise the Audit Committee to determine the auditor’s remuneration.

### Dividends

9. To approve the Company’s dividend policy to continue to pay four evenly spaced quarterly interim dividends with the ability to pay further interim dividends should compliance with REIT rules require and for the last dividend referable to a financial year not to be categorised as a final dividend that is subject to shareholder approval.

### Directors’ Authority to Allot Shares

10. That the directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the “**Act**”) to exercise all the powers of the Company to:
  - a) allot shares of £0.01 each in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £268,333; and
  - b) allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £536,666 (such amount to be reduced by the nominal amount of any shares allotted or rights granted under paragraph (a) of this resolution 10) in connection with an offer by way of a rights issue to:
    - i. holders of ordinary shares in the Company (“**Ordinary Shares**”) in proportion (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them; and
    - ii. holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors of the Company otherwise consider necessary, and so that the directors of the Company may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirement of any regulatory body or stock exchange or any other matter.

This authority shall apply in substitution for all previous authorities (but without prejudice to the validity of any allotment pursuant to such previous authority) and shall expire at the end of the next Annual General Meeting of the Company or on the date falling 15 months after the date of this resolution, whichever is earlier, save that under each authority the Company may, before such expiry, make any offers or agreements which would or might require shares to be allotted or rights granted to subscribe for or convert any security into shares after such expiry and the directors may allot shares or grant such rights to subscribe for, or to convert any security into, shares (as the case may be) in pursuance of any such offer or agreement as if the relevant authority conferred by this resolution had not expired.

## Special Resolutions

### Disapplication of pre-emption rights

11. That, if Resolution 10 is passed, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited:
  - a. to allotments for rights issues and other pre-emptive issues;
  - b. to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £80,500; and

- c. to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) or paragraph (b) above) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (b) above, such authority to be used only for the purposes of making a follow-on offer which the Board of the Company determines to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

Such authority to expire at the end of the next AGM of the Company (or, if earlier, at the close of business on 15 February 2025) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

12. That if Resolution 10 is passed, the Board be authorised in addition to any authority granted under Resolution 11 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:
- limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £80,500 such authority to be used only for the purposes of financing (or refinancing, if the authority is to be used within 12 months after the original transaction) a transaction which the Board of the Company determines to be either an acquisition or a specified capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and
  - limited to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount equal to 20% of any allotment of equity securities or sale of treasury shares from time to time under paragraph (a) above, such authority to be used only for the purposes of making a follow-on offer which the Board of the Company determines to be of a kind contemplated by paragraph 3 of Section 2B of the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

Such authority to expire at the end of the next AGM of the Company (or, if earlier, at the close of business on 15 February 2025) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

#### Authority to purchase own shares

13. That, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Companies Act 2006 (the "Act")) of Ordinary Shares of £0.01 on such terms and in such manner as the directors may from time to time determine, provided that:
- The maximum number of Ordinary Shares hereby authorised to be acquired between the date of this resolution and the date of the Company's AGM to be held in 2024 shall be 8,050,000 or, if less, that number of Ordinary Shares which is equal to 10% of the Ordinary Shares in issue as at the passing of this resolution;
  - the minimum price (exclusive of expenses) which may be paid for any Ordinary Share is £0.01;
  - the maximum price (exclusive of expenses) which may be paid for any Ordinary Share is the higher of:
    - an amount equal to 105% of the average of the middle market quotations for such Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such Ordinary Share is contracted to be purchased; and
    - the higher of (a) the price of the last independent trade and (b) the highest current independent bid for such Ordinary Share on the trading venues where the market purchases by the Company pursuant to the authority conferred by this resolution will be carried out;
  - this authority shall expire at the end of the Company's AGM to be held in 2024 or on the date falling 15 months after the date of this AGM, whichever is earlier, unless previously renewed, varied or revoked by the Company in general meeting;
  - the Company may make a contract to purchase its Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which contract would or might require the Company to purchase its Ordinary Shares after such expiry and the Company shall be entitled to purchase its Ordinary Shares pursuant to any such contract as if the power conferred hereby had not expired; and
  - any Ordinary Shares bought back under the authority hereby granted may, at the discretion of the directors, be cancelled or held in treasury.

#### Notice period for general meetings other than annual general meetings

14. That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.

#### By order of the Board

#### Hanway Advisory Limited

#### Company Secretary

Registered Office:

1 King William Street

London

EC4N 7AF

(Company Number: 10727886)

Notice of Annual General Meeting continued

## Explanatory Notes to the Resolutions

An explanation of each of the resolutions is set out below.

Resolutions 1 to 10 (inclusive) are proposed as ordinary resolutions. This means that for each of these resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolutions 11 to 14 (inclusive) are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

The Board considers that all resolutions contained in the Notice of AGM are in the best interests of the Company and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. The Board unanimously recommends that you vote in favour of the proposed resolutions as the directors intend to do in respect of their own beneficial holdings.

Resolutions 9 to 14 inclusive are special business resolutions, and an explanation of each of those resolutions are set out below.

### Dividends

#### Resolution 9

This resolution is to approve the Company's dividend policy to continue to pay four evenly spaced quarterly interim dividends per annum. The alternative to declaring them all as "interim" dividends would be to declare three interim dividends with the fourth dividend being proposed as a "final" dividend. However, a declaration of a final dividend would require shareholder approval, which would delay payment of that dividend. To avoid this potential delay, the Company will propose the dividend policy for approval at each AGM, enabling the Company to pay all of its dividends as "interim" dividends. Additionally, the dividend policy allows for the payment of further interim dividends should compliance with the REIT rules require.

### Directors' authority to allot shares

#### Resolution 10

The purpose of this resolution is to provide the Directors with authority to allot shares.

The authority given to Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting under section 551 of the Act. The authority in this resolution will allow the Directors to allot new shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £268,333 (26,333,331 Ordinary Shares), which is equivalent to approximately one third of the current issued ordinary share capital of the Company as at 29 September 2023 (being the last practicable day prior to the publication of this notice). The authority will expire immediately following the Company's 2023 AGM or 15 February 2025, whichever is the earlier.

The authority in paragraph (b) will allow the Directors to allot new shares or to grant rights to subscribe for or convert any security into shares in the Company only in connection with a pre-emptive rights issue up to an aggregate nominal value of £536,666 (53,666,661 Ordinary Shares), which is approximately two thirds of the Company's issued share capital as at 29 September 2023 (inclusive of the nominal value of £268,333 sought under paragraph (a) of the resolution). This is in line with corporate governance guidelines. There is no present intention to exercise this authority.

### Disapplication of pre-emption rights

#### Resolutions 11 and 12

If the directors wish to exercise the authority under Resolution 10 to allot new shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme), company law requires that these shares are first offered to existing shareholders in proportion to their existing holdings. There may be occasions, however, when the directors will need the flexibility to finance business opportunities to allot new shares (or to grant rights over shares) for cash or to sell treasury shares for cash without first offering them to existing shareholders in proportion of their holdings. This cannot be done unless the shareholders have first waived their pre-emption rights.

Resolution 11 would authorise the directors to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities, the authority will be limited to the allotment of shares for cash or sale of treasury shares for cash up to an aggregate nominal value of £80,500, which is equivalent to approximately 10 per cent. of the Company's issued ordinary share capital as at 29 September 2023 (being the latest practicable date prior to the publication of this notice).

Resolution 11 also seeks a disapplication of the pre-emption rights on a rights issue or other pre-emptive issue so as to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders.

The Board intends to adhere to the guidance issued by the Investment Association (as updated in February 2023), the Pre-Emption Group's Statement of Principles (as updated in November 2022) (the "Statement of Principles") and the template resolutions published by the Pre-Emption Group in November 2022.

The directors therefore seek an additional authority under Resolution 12 to issue shares for cash on a non-pre-emptive basis up to an aggregate nominal value of £80,500 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 10 per cent. of the Company's issued ordinary share capital as at 29 September 2023 (being the latest practicable date prior to the publication of this notice), if used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles.

The purpose of this resolution is to provide flexibility to allot shares without first offering them to existing shareholders, where this is considered to be in the best interests of shareholders.

Ordinary Shares will only be issued pursuant to these resolutions for cash on a non pre-emptive basis at a premium to the prevailing net asset value at the time of issue (in order to take account of the costs of such issue) and will therefore be non-dilutive to the prevailing net asset value for existing shareholders.

If given, the authorities contained in Resolutions 11 and 12 will expire at the conclusion of the 2024 AGM or on 15 February 2025 (the date which is 15 months after the passing of the resolution), whichever is earlier.

Shareholders will note that Resolutions 11 and 12 also relate to treasury shares.



## Authority to purchase own shares

### Resolution 13

In certain circumstances, it may be advantageous for the Company to purchase its own shares and this resolution seeks the authority from shareholders to continue to do so. The directors will continue to exercise this authority only when, in the light of market conditions prevailing at the time, they believe that it is in the best interests of shareholders as a whole and as a means of correcting any imbalance between supply and demand for the shares. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority. Under the Act, the Company can hold its own shares in treasury following a buy back, instead of having to cancel them. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively (including pursuant to the authority under resolution 10 above) and provides the Company with additional flexibility in the management of its capital base. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares. If the directors exercise the authority conferred by resolution 13, the Company will have the option of either holding in treasury or of cancelling any of its own shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue.

The resolution specifies the maximum number of Ordinary Shares that may be acquired (approximately 10 per cent. of the Company's issued ordinary share capital as at 29 September 2023 (being the latest practicable date prior to the publication of this notice)) and the maximum and minimum prices at which they may be bought. The authority sought is in line with the Investment Association's Share Capital Management Guidelines.

There are no warrants or options to subscribe for Ordinary Shares outstanding at 29 September 2023 (being the latest practicable date prior to the publication of this notice).

If given, this authority will expire at the conclusion of the 2024 AGM or on 15 February 2025 (the date which is 15 months after the date of passing of the resolution), whichever is earlier.

The directors intend to seek renewal of this authority at subsequent AGMs in accordance with current best practice.

## Notice period for general meetings other than annual general meetings

### Resolution 14

This resolution is to allow the Company to hold general meetings (other than an AGM) on 14 clear days' notice. The notice period required by the Act for general meetings of the Company is 21 clear days unless: (i) shareholders approve a shorter notice period, which cannot however be less than 14 clear days; and (ii) the Company offers the facility for all shareholders to vote by electronic means. AGMs must always be held on at least 21 clear days' notice.

The Company intends to give as much notice as is practicable when calling a general meeting. The 15 clear days' notice period will not be used as a matter of routine, but only in circumstances where it would clearly be to the advantage of shareholders as a whole, the business of the meeting is time-sensitive or flexibility is merited by the nature of the business of the meeting. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

## Further information about the AGM

### Right to attend the AGM

Only those shareholders registered on the Company's Register of Members at close of business on 13 November 2023 (or in the event of an adjournment, at close of business on the date which is two working days prior to the adjourned meeting), or their duly appointed proxy shall be entitled to attend and vote at the AGM. Changes to the Register of Members after the deadline shall be disregarded in determining the rights of persons to attend and vote at the AGM.

### Appointment of a proxy

Shareholders are entitled to appoint a proxy to exercise all or any of their rights to vote at the AGM and at any adjournment thereof. A shareholder may appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this notice. To be valid, your Form of Proxy must be received no later than 10 a.m. on 13 November 2023 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting). You may return your Form of Proxy using the pre-paid envelope provided or delivered by post or by hand (during normal business hours) to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY. Amended instructions must also be received by Computershare by the deadline for receipt of Forms of Proxy.

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first-named being the most senior).

### Appointment of proxy on-line

A proxy may be submitted electronically using [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). Members can use this service to vote or appoint a proxy on-line. The same voting deadline of 48 hours before the timing of the Meeting applies as if you were using a personalised proxy form to vote or appoint a proxy by post to vote for you. You will need your Control Number, Shareholder Reference Number (SRN) & PIN which can be found on your Form of Proxy or email notice.

## Notice of Annual General Meeting continued

### CREST members

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy, or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent, Computershare Investor Services PLC (ID 3RA50), by the latest time(s) for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)).

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

### Corporate Representatives

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same Ordinary Shares.

### Asking questions in advance of the AGM

Except as provided above, shareholders who have general queries about the meeting should contact the Company’s Registrar, Computershare, at: [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus) or by telephone on +44 (0) 370 707 1874 or the Company Secretary at the Registered Office address.

You may not use any electronic address provided either in this notice or any related documents (including the Chair’s letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

Shareholders may submit questions to the Board in advance of the AGM by emailing such questions to [cosec@hanwayadvisory.com](mailto:cosec@hanwayadvisory.com).

### Nominated Persons

If you are a person who has been nominated under Section 146 of the Act to enjoy information rights (Nominated Person):

- you may have a right under an agreement between you and the member of the Company who has nominated you to have Information Rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the Meeting;
- if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to exercise of voting rights; and
- your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

### Website publication of audit concerns

Pursuant to Chapter 5 of Part 16 of the Act (Sections 527 to 531), where requested by a member or members having a right to vote at the Meeting and holding at least 5% of total voting rights of the Company, or at least 100 members having a right to vote at the Meeting and holding, on average, at least £100 of paid up share capital, the Company must publish on its website a statement setting out any matter that such members propose to raise at the Meeting relating to audit of the Company’s accounts (including the Auditor’s Report and the conduct of the audit) that are to be laid before the Meeting. The request:

may be in hard copy form signed by the member, stating the full member’s name and address and is sent to the Company Secretary, Hanway Advisory Limited, 1 King William Street, London, EC4N 7AF or in electronic form stating the member’s full name, address, and shareholder reference and is sent to [cosec@hanwayadvisory.com](mailto:cosec@hanwayadvisory.com) stating “AGM” in the subject field;

- must identify the statement to which it relates, either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported;
- must be authenticated by the person or persons making it; and
- must be received by the Company at least one week before the Meeting.

Where the Company is required to publish such a statement on its website, it may not require the members making the request to pay any expenses incurred by the Company in complying with the request, it must forward the statement to the Company’s Auditor no later than the time the statement is made available on the Company’s website and the statement may be dealt with as part of the business of the Meeting.

### Total Voting Rights

As at 29 September 2023 (being the last practicable day prior to the publication of this notice), the Company's issued share capital consisted of [80,500,000] Ordinary Shares of £0.01 each. The Company does not hold any shares in treasury. Therefore, the total voting rights in the Company as at 29 September 2023 (being the latest practicable date prior to the publication of this notice) are 80,500,000 Ordinary Shares.

### Website

A copy of this notice, and other information required by section 311A of the Act, can be found at: <https://www.alternativeincomereit.com/>.

### Inspection of documents

The following documents will be available for inspection at the Company's Registered Office from the date of this notice during usual business hours on any weekday (Saturdays, Sundays and bank holidays excluded) until the date of the meeting and also on the date and at the location of the meeting from 15 minutes before the AGM until it ends:

- copies of letters of appointment of the non-executive directors;
- copies of the articles of association; and
- register of directors' interests.





**Registered address**

Alternative Income REIT PLC  
1 King William Street  
London EC4N 7AF