Picton

Occupier focused, Opportunity led.

Picton Property Income Limited
Annual Report 2021

Welcome to our 2021 Annual Report

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs.

To us this means being a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Contents

Visit our website
www.picton.co.uk

What makes us different?

Visit our website for more information on why to invest
www.picton.co.uk

Parkbury Industrial Estate
Radlett

1

Our long-term track record of upper quartile outperformance

We have outperformed the MSCI UK Quarterly Property Index over one, three, five and ten years, and since inception.

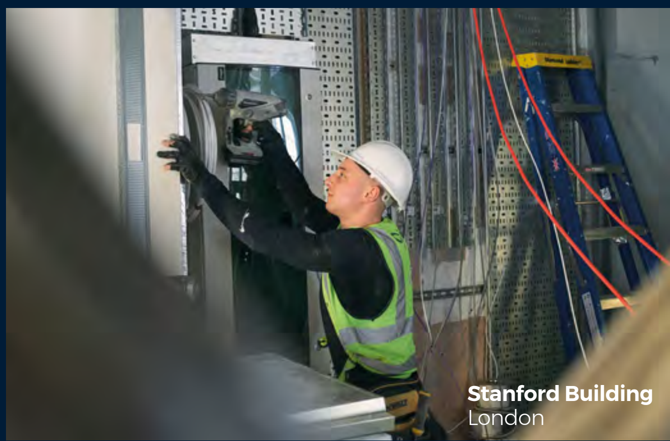
Read more on pages **6–7**

2

Diversified exposure to the UK commercial property market with flexibility to adapt to changing market conditions

Our diversified property portfolio generates income from around 350 occupiers across a wide range of businesses, providing the opportunity for income and capital growth.

Read more on pages **34–43**



Stanford Building
London

50 Farringdon Road
London

3

Our occupier focused and responsible approach to business

Our occupier focused approach ensures we actively manage our assets, maintain high occupancy and create space for our occupiers to succeed. Sustainability is integrated within our business model and corporate strategy and in the way we and our occupiers operate.

Read more on pages **54–61**

Highlights

Positive results underlining the resilience of the business and our continued long-term track record of outperformance.

Resilient financial performance

- Profit after tax of £33.8 million, an increase of over 50% on the prior year results
- Net assets of £528 million, or 97p per share, an increase of 3.7%
- Earnings per share of 6.2p
- Total return of 6.6%
- Received 92% of rental income over the financial year, with a further 1% deferred
- Combined reduction of 6% in property, operating and finance costs over the year
- Total dividends paid of £15.0 million, with dividend cover of 134%
- Loan to value ratio reduced to 21% with significant headroom against loan covenants
- New £50 million revolving credit facility completed

Improving occupancy through asset management

- Increased occupancy to 91%
- Occupier retention of 88%
- 90 asset management transactions completed including:
  - 17 rent reviews, 7% ahead of ERV
  - 30 lease renewals or regears, 10% ahead of ERV
  - 25 lettings or agreements to lease, 3% ahead of ERV
- £5 million invested into asset refurbishment and repositioning projects

Outperforming property portfolio

- Total property return of 7.3%, outperforming MSCI UK Quarterly Property Index of 1.2%
- Upper quartile outperformance against MSCI over one, three, five and ten years, and since inception
- Well-positioned portfolio comprising: Industrial 53%, Office 36%, Retail and Leisure 11%
- Like-for-like valuation increase of 3.2%
- Like-for-like increase in passing rent of 1.9%
- Like-for-like estimated rental value increase of 1.1%
- One retail asset disposal for £4.0 million, 30% ahead of March 2020 valuation

Supporting our stakeholders

- Provided assistance to over 90 occupiers during the Covid-19 pandemic
- Increased dividends twice during the year, with payments almost back to pre-pandemic levels
- Reduction in property running costs to assist our occupiers
- Improvement in annual GRESB score achieving two Green star status
- Pathway to net zero carbon to be in place by March 2022

See Financial Review for more highlights on pages **44–46**

Financial highlights

£34m
Profit after tax
(2020: £23m)
(2019: £31m)

£528m
Net assets
(2020: £509m)
(2019: £499m)

£682m
Property valuation
(2020: £665m)
(2019: £685m)

6.6%
Total return
(2020: 4.5%)
(2019: 6.5%)

0.0%
Total shareholder return
(2020: 3.6%)
(2019: 10.1%)

97p
NAV per share
(2020: 93p)
(2019: 93p)

6.2p
Earnings per share
(2020: 4.1p)
(2019: 5.7p)

2.8p
Dividends per share
(2020: 3.5p)
(2019: 3.5p)

134%
Dividend cover
(2020: 105%)
(2019: 122%)

EPRA measures

97p
EPRA NTA per share
(2020: 93p)
(2019: 93p)

93p
EPRA NDV per share
(2020: 88p)
(2019: 88p)

105p
EPRA NRV per share
(2020: 102p)
(2019: 101p)

£20.1m
EPRA earnings
(2020: £19.9m)
(2019: £22.9m)

3.7p
EPRA earnings per share
(2020: 3.7p)
(2019: 4.3p)

4.8%
EPRA net initial yield
(2020: 4.8%)
(2019: 4.9%)

5.5%
EPRA 'topped-up' net initial yield
(2020: 5.4%)
(2019: 5.3%)

8.8%
EPRA vacancy rate
(2020: 11.5%)
(2019: 10.3%)

26.9%
EPRA cost ratio[1]
(2020: 28.3%)
(2019: 22.9%)

20.8%
EPRA cost ratio[2]
(2020: 20.2%)
(2019: 19.5%)

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector. As an EPRA member, we fully support the EPRA Best Practices Recommendations which recognise the key performance measures, as detailed above. Specific EPRA metrics can be found within the KPIs and Financial Review sections of this Report with further disclosures and supporting calculations on pages 127 to 129. We use a number of Alternative Performance Measures and these are discussed in more detail in the Financial Review on page 45.

Read more on pages **30-33 and 44-51**

Covid-19

The effects of the Covid-19 pandemic have been widespread, impacting the UK economy, businesses and people's everyday lives.

Our response to the pandemic is set out throughout this Report. In the Marketplace section we look at its impact on the commercial property market and how we are responding. In Managing Risks we have described the impact on our principal and emerging risks. We have also described how we have engaged and supported our occupiers and other stakeholders, in the Portfolio Review and Being Responsible sections.

Our Covid-19 response

1 Including direct vacancy costs
2 Excluding direct vacancy costs

Occupier focused, Opportunity led.

We are an award-winning Real Estate Investment Trust (REIT) investing in UK commercial property. Our diversified property portfolio consists of 46 assets with over 50% invested in the industrial sector.

Our business

We acquire, create and manage buildings for around 350 commercial occupiers across a wide range of businesses. By applying insight, agility and a personalised service, we provide attractive, well-located spaces to help our occupiers' businesses succeed and in turn enhance value for our shareholders.

We have a long-term track record and have outperformed the MSCI UK Quarterly Property Index, producing upper quartile returns over one, three, five and ten years, and since inception.

Our purpose

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs.

To us this means being a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Read more on pages 12–13

Our values

Principled

We are professional, diligent and strategic.

Demonstrated through our transparent reporting, occupier focused approach, alignment with shareholders, delivery of our Picton Promise, commitment to sustainability and positive environmental initiatives.

Perceptive

We are insightful, thoughtful and intuitive.

Demonstrated through our long-term track record, our gearing strategy, diverse sector allocation and engagement with our occupiers.

Progressive

We are forward-thinking, enterprising, and continually advancing.

Demonstrated through our culture, work ethic and proactive asset management.

Corporate summary

£528m
Net assets

£468m
Market capitalisation

£166m
Borrowings

3.7%
Dividend yield

1.0%
Cost ratio

21%
Loan to value

Portfolio summary

46
Number of assets

£682m
Value

4.8%
Net initial yield

6.3%
Reversionary yield

91%
Occupancy

4.1m sq ft
Area

Industrial weighting

53%

South East	40%
Rest of UK	13%

Read more on pages **38–39**

Office weighting

36%

South East	16%
Rest of UK	11%
City and West End	9%

Read more on pages **40–41**

Retail and Leisure weighting

11%

Retail Warehouse	7%
High Street Rest of UK	3%
Leisure	1%

Read more on pages **42–43**

Top five occupiers

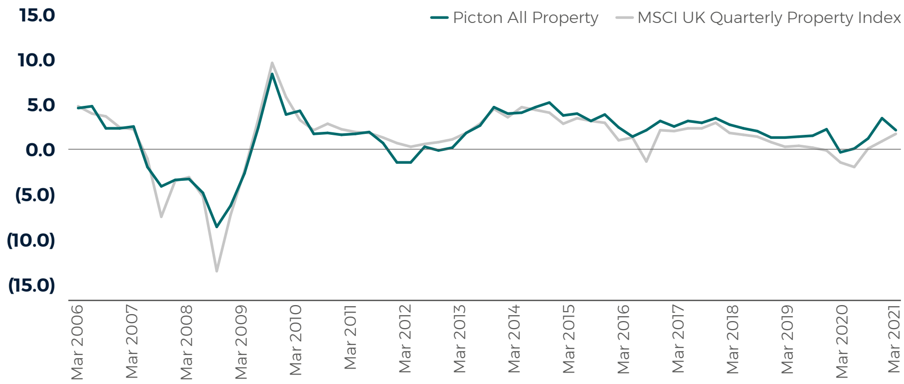
Occupier	Contracted rent (£m)	% of total contracted rent
Public sector	2.1	5.0
Whistl UK Limited	1.6	3.9
B&Q Plc	1.2	3.0
The Random House Group Limited	1.2	2.8
Snorkel Europe Limited	1.2	2.8
Total	**7.3**	**17.5**

Top five assets

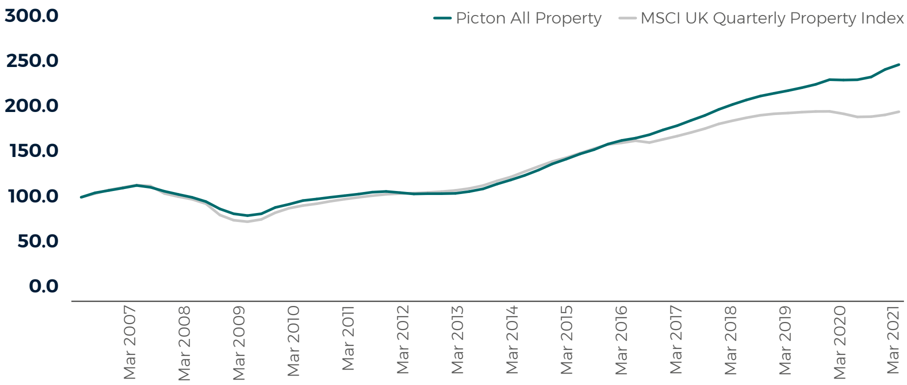
Assets	Property type	Capital value (£m)
Parkbury Industrial Estate, Radlett, Herts.	Industrial	>60
River Way Industrial Estate, Harlow, Essex	Industrial	50-60
Angel Gate, City Road, London EC1	Office	30-40
Stanford Building, Long Acre, London WC2	Office	30-40
Datapoint, Cody Road, London E16	Industrial	20-30

Outperformance track record

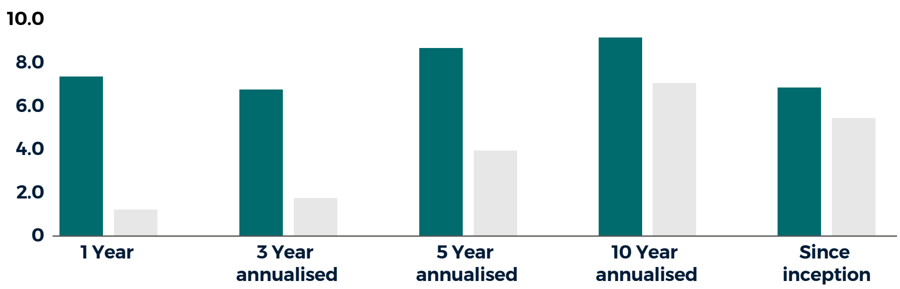
Total property return (%) (Picton vs MSCI)



Indexed total property returns (Picton vs MSCI)

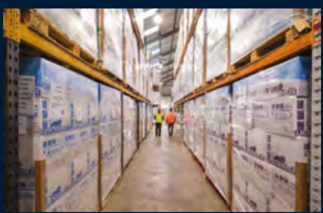


Annualised total property return (%)



15 years of outperformance

Our occupier focused, opportunity led approach continues to deliver long-term shareholder value.



2005

- The Company was successfully launched as ING UK Real Estate Income Trust Limited on the London Stock Exchange

2006

- Acquisition of £125 million portfolio, increasing the Company's property assets

2008

- Used the IPD (now MSCI) Environmental Code for the collection, measurement and analysis of environmental information on our office properties to implement improvements

2009

- During the global financial crisis, successful renegotiation of loan covenants for nil cost

2010

- Acquisition of Rugby Estates Investment Trust plc
- Decision taken to internalise the Company's management

2011

Name changed to Picton Property Income Limited

2012

- Internalisation is effective from 1 January, with significant saving in costs
- Company's debt facilities refinanced
- Introduction of covered dividend policy

2013

- New equity raised to fund property acquisitions

2014

- Placing Programme initiated to raise £100 million of new equity
- £81 million of new property assets acquired
- Acquired Parkbury Industrial Estate, Radlett, our largest industrial asset, through property swap

2015

- Highest reported profit and total return since 2006
- New revolving credit facility established

2016

- Established further revolving credit facility
- Reduced central London office exposure and repaid debt
- Reduced borrowings through repayment of zero dividend preference shares

2017

- Fifth anniversary since internalisation
- Outperformed MSCI UK Quarterly Property Index over 1, 3, 5 and 10 years
- Increase in market capitalisation from £129 million to £408 million over the five years since internalisation
- Alignment of team with shareholders through Long-term Incentive Plan

2018

- Entered UK REIT regime
- Changed from investment company to a commercial company

2019

- Relaunched the Picton Promise with five key commitments to our occupiers: Action, Community, Technology, Support and Sustainability
- Raised new equity and repaid debt, reducing LTV
- Major refurbishment and upgrade of office assets instructed

2020

- Supported occupiers in face of Covid-19 global pandemic
- Dividend reduced but subsequently increased as a result of rent collection performance
- LTV reduced to 22%, down from 54% in 2013
- Fully integrated sustainability into corporate strategy, completing materiality assessment

2021

- Retail exposure reduced to 11%, down from 30% in 2012
- Sixth consecutive year of upper quartile performance against MSCI UK Quarterly Property Index

Awards

CITYWIRE

Citywire Investment Trust Awards – Winner 2019, 2018, 2017

moneywise

Moneywise Investment Trust Awards – Winner 2018

MSCI

IPF Investment Property Forum

MSCI UK Property Investment Awards – Winner 2018

Money Observer Trust Awards

Money Observer Trust Awards – Best Property Trust Winner 2018, 2017, 2016

INVESTMENT WEEK

Investment Company of the Year Awards – Property Winner 2018, 2017, 2016

EPRA BPR GOLD

EPRA Gold Awards Financial Reporting – 2020, 2019, 2018, 2017, 2016, 2015
Sustainability Reporting – 2020, 2019

These results show an improvement on the preceding year and underline the resilience of the business.

Lena Wilson CBE
Chair

In my first year as Chair of Picton, I am pleased to be able to share with you the results for the 12-month period to 31 March 2021.

This has been an unprecedented year, with significant disruption to businesses, livelihoods, family and day-to-day life.

During the year, we have remained focused on our three strategic pillars of Portfolio Performance, Operational Excellence and Acting Responsibly. As such, it gives me pleasure to be able to report that the business is in good shape, delivering a profit for the year of £34 million, an increase of over 50% compared with the preceding year.

This has been achieved during a period where we have also provided significant assistance and support to help our occupiers cope with the disruption caused by the Covid-19 pandemic. This demonstrates the strength of our business model, our position entering the pandemic and our hands-on approach which has even led to growing occupancy over the year.

Performance

We delivered a total return of 6.6% over the year driven by portfolio growth in the latter half of the year. We have maintained our EPRA earnings despite being impacted by lower rent collection during the year, and have offset this with additional income generated through asset management transactions and a reduction in finance, property and operating costs.

At a property level, the portfolio has again outperformed the MSCI UK Quarterly Property Index continuing our track record of upper quartile outperformance which spans the period since inception.

Our share price has been more volatile over the period but has responded well to the increases in dividend that we have announced through the year. The share price still does not fully reflect the net asset value of the business, but is currently in a better position than for many of our real estate peers.

Property portfolio

The outperformance at a property level has been driven by our exposure to the industrial sector, which now accounts for 53% of the portfolio. Also, our retail and leisure exposure has reduced, now accounting for only 11%. The combination of these two factors has been helpful alongside some key lettings and retaining many occupiers at or prior to lease-end.

Broadly, rent collection for the year stands at 92% of income demanded, and we expect this to continue to rise, but have made appropriate provisions to reflect the likelihood of not making a full recovery.

Capital structure

We are conservatively positioned with a Group loan to value ratio of 21%. We have £50 million available through our revolving credit facility and assuming the economic recovery strengthens we will be seeking to deploy this, at least in part during the forthcoming year. We recognise that the current market cost of debt is lower than our own and where opportunities arise to reduce this on attractive terms, they will be pursued.

Governance

We continue to maintain strong corporate governance and during the year several changes to the Board have been made including my own appointment as Chair and that of Richard Jones as Chair of the Property Valuation Committee. I would like to thank my predecessor, Nicholas Thompson, for his years of service and similarly Roger Lewis who also stood down in the year.

Despite not being able to meet physically due to the constraints of lockdown, I am pleased to have been able to spend time virtually with the Picton team and a number of larger shareholders. I look forward to continuing open and constructive engagement as we return to some degree of normality.

Dividends

Our initial response to the pandemic was to introduce a more conservative distribution policy, recognising the uncertainty around the severity and impact of the pandemic on our cash flow.

Since then, and based on robust performance, we have been able to increase the dividend in both November and February such that the current distribution is 91% of pre-pandemic levels. We will continue to work hard to further improve occupancy and income in order to get back to pre-pandemic levels, hopefully during the forthcoming year.

Sustainability

We continue to make good progress on multiple fronts in respect of sustainability issues and during the year we joined the Better Buildings Partnership, a collaboration of the UK's leading commercial property owners. Our focus for the coming year will be on establishing our pathway to achieving net zero carbon. We are mindful of the need to do this in a way that benefits all our stakeholders.

During the year we celebrated our fifteenth anniversary by supporting grassroots charities, helping support the work they do in this particularly difficult period.

Outlook

It is clear that we are well positioned and have built up an impressive track record over the years. What is more important is that this is maintained, and that we can innovate and position the business to ensure that we capture the positive opportunities that are likely to arise following this long period of disruption.

Thankfully there is now light at the end of the tunnel, but we are mindful of the changing landscape and longer-term impacts that the pandemic might have on both the economy and how real estate is used. Along with my fellow Board members, I am excited about the potential ahead.

Lena Wilson CBE
Chair
26 May 2021

Q&A with Lena Wilson CBE

The Picton team had the opportunity to conduct a virtual Q&A with Lena Wilson, our new Chair.

Q

What attracted you to Picton?

A

As I carried out my research for the role it was clear to me that Picton was an understated jewel in the crown as far as the sector is concerned. I was impressed with Picton's track record and how the Company has dealt with the challenges of the past year. I believe in the business and it is a sector that is important to the economy. In particular, I also think I can add value given my experience.

Q

What are your first impressions of the Company?

A

I'm pleased to say that I am very glad I joined! I think Picton is at an inflection point in terms of opportunity, building on its long-term performance. I am looking forward to being part of the team and the journey.

Q&A

Q

What do you think are Picton's core strengths?

A

As part of my due diligence before joining the team I reached out to a range of stakeholders, and they all told me what Picton's core strengths are - and it's the team and the culture. With a terrific track record to be proud of, Picton has made a series of very sound decisions, controlled its costs and pursued the right opportunities. For the business to be in the position it is in after the last 12 months is remarkable, a view shared by stakeholders.

Q

What are the key priorities for the business next year?

A

In the short-term, planning and preparing for an end of lockdown recovery and working closely with all stakeholders, as companies start to reoccupy their buildings, but also to assess longer-term opportunities for growth.

While good progress has been made against a number of sustainability priorities over the course of this year, a key focus will also be developing our net zero carbon pathway.

Q

What in your view is the biggest challenge facing the business and the real estate sector?

A

The biggest challenge facing all businesses at the moment is economic uncertainty and the real estate sector is no exception. The economy has been described as a tightly wound spring that is ready to bounce back post vaccine, but there are significant challenges too. The slower vaccine rollout across Europe will have an effect across a range of sectors, as will how we return to workplaces and what the future of work, leisure, hospitality and retail look like.

Having good networks, insights and market knowledge will be key for the real estate sector and those who can access capital, be adaptive and have the confidence to seize opportunities will prosper.

Q

What do you do when you are not at work?

A

I try to really enjoy life and that includes work. I am very fortunate to have worked in so many countries and I still love to travel. Friendships and family are also very important to me. I am a big consumer of broad culture, live music, theatre and art and I read widely. I like to keep fit and used to be quite a competitive runner, but now walk a lot, do some high intensity workouts and try to make time for daily yoga practice and meditation. I realised a while back that overall wellness means more than just physical fitness and I believe that approach has served me well across a range of high-pressure roles.

Our Business Model

Our business model creates value through owning a portfolio that generates a diversified and stable income stream. We have the flexibility to adapt to changing market conditions and so deliver value to our stakeholders through the property cycle.

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs. To us this means being a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

In order to deliver on our purpose, we have in place three distinct strategic pillars: Portfolio Performance, Operational Excellence, and Acting Responsibly. These pillars include a range of strategic priorities which guide the direction of our business and are regularly reviewed.

Read more on pages **20-21**

How we create value

1

Our business model is driven by knowledge, expertise and research led decision making

Our in-depth understanding of the UK commercial property market enables us to identify and source value across different sectors and reposition the portfolio through the property cycle.

2

Stock selection and acquisition – buying into growth assets, locations or sectors

We have established a diversified UK property portfolio and while income focused, we will consider opportunities where we can enhance value and/or income.

3

Creating value through proactive asset management

Our diverse occupier base generates a stable income stream, which we aim to grow through active management and capturing market rental uplifts. Our occupier focused, opportunity led approach ensures we create space that meets our occupiers' needs in order to maintain high levels of occupancy across the portfolio.

4

Selling assets to recycle into better opportunities

We identify assets for disposal to maximise value creation. Proceeds are invested into new opportunities, or used elsewhere within the Group.

This is underpinned by:

Risk management

Our diverse portfolio and occupier base spreads risk and generates a stable income stream throughout the property cycle. We will adapt our capital structure and use debt effectively to achieve enhanced returns. We will maintain a covered dividend policy, to generate surplus cash and allow us to invest back into the portfolio.

Responsible stewardship

We have a responsible and ethical approach to business and sustainability is embedded within our corporate strategy. We understand the impact of our business on the environment and are committed to creating and delivering value for the benefit of all our stakeholders.

Creating and delivering value for our stakeholders:

Shareholders

£34m

Profit after tax

Occupiers

88%

Retention rate

Communities

£29,000

Charitable donations

Our people

85%

Employee satisfaction score

The environment

92%

EPC ratings A-D

For more detailed information on our stakeholders, see our Section 172 statement on pages **62-63**

Our Marketplace

Since the Covid-19 pandemic took hold its effects have been far reaching and dramatic; however, the UK Government's comprehensive stimulus package has helped to protect livelihoods and provided much-needed support for households and businesses.

Stanford Building
London

Swiftbox
Rugby

Economic backdrop

The UK's vaccination programme has been one of the most well-executed globally. We are close to restrictions being fully lifted and there is a much-anticipated economic recovery starting to emerge. During the year the UK left the European Union, however there remain several matters to be resolved, such as financial passporting rights. Pending any major Brexit-related disruption or problematic new coronavirus variants, the outlook for the UK economy looks considerably brighter than it did this time last year.

During 2020, GDP contracted by -9.8%, marking the largest annual fall in UK GDP on record. The largest quarterly fall was during the second quarter of 2020 following the first and strictest period of lockdown. Thankfully, a double dip recession was avoided.

To mitigate the impact of the pandemic and stimulate the economy, there has been a large response both in terms of UK Government policy and measures introduced by the Bank of England, including the furlough scheme, business rates relief, a ban on commercial evictions, record ultra-low interest rates (0.1% since March 2020) and Quantitative Easing. In stark contrast to previous periods of recession, average house prices in the UK rose 7.7% during 2020, largely thanks to the stamp duty holiday, which has been extended in part until September 2021.

The UK unemployment rate hit a five-year peak of 5.1% in November 2020, 1.3% higher than a year earlier. The furlough and self-employed support schemes were extended to September 2021 and this plus the easing of restrictions is hoped will keep a lid on rising unemployment.

The annual percentage change in the consumer price index has been at or below 1% since April 2020 and in March 2021 stood at 0.7%.

In March 2021 retail sales rose higher than pre-pandemic levels, even before non-essential shops reopened. Online retail reached a record proportion of total retail sales in January 2021 of 36.4%, as consumers were restricted from using physical stores. Of course, whilst some retail sectors have struggled, others have thrived. As people were confined to their local area, businesses still able to trade benefitted from this additional footfall at the expense of retailers situated at transport hubs or in central business districts. Many companies with an established online offering had a strong year.

Many households were fortunate to see income levels maintained and outgoings reduced, contributing to a record increase in the household savings ratio, which reached a peak of 25.9% in the second quarter of 2020. As restrictions are eased and retail and leisure businesses reopen, it is expected that this elevated savings ratio will contribute to an economic recovery.

The recovery has begun to gather pace. It is anticipated that healthy consumer spending and interest rates staying lower for longer will contribute to a rapid rebound in the second half of 2021. The Office for Budget Responsibility has forecast GDP growth of 4.0% for 2021 and a recovery to pre-pandemic levels by mid-2022.

UK property market

According to the MSCI UK Quarterly Property Index, commercial property delivered a total return of 1.2% for the year ended March 2021, which compares to -0.4% for the year ending March 2020. The increase on last year was a result of a smaller decline in capital values; capital growth was -3.2% in the year to March 2021, better than the -4.7% recorded for the previous year. The income return was 4.5%, the same as the preceding year.

The industrial sector had a strong year and was the top performing sector for the fifth consecutive year. The industrial total return for the year ending March 2021 was 14.3%, with capital growth at a three-year high at 9.6% and an income return of 4.3%. Industrial ERV growth for the period was 2.8%, with a sub-sector range of 2.2% to 3.8%. Capital growth ranged from 6.1% to 13.0% within sub-sectors. Equivalent yields for industrial property now stand at 5.0% (March 2020: 5.3%).

The office sector faced a degree of uncertainty this year, as the success of working from home has provoked thought over future office space requirements for many occupiers. The office sector produced a total return of -0.8% for the year to March 2021, comprising -4.5% capital growth and 3.8% income return. All Office annual rental growth was -1.0% ranging from -2.1% to 1.2% within sub-sectors. Office capital growth was negative across all sub-sectors, ranging from -6.7% to -1.7%. Equivalent yields for office property now stand at 5.8% (March 2020: 5.6%).

It was an extraordinarily challenging time for the retail sector, with three national lockdowns resulting in the closure of all non-essential shops for much of the year. Months of lost trading and dramatically reduced footfall due to Covid-19 exacerbated an already tough environment for retailers, which has led to a high number of CVAs and administrations during the year. The retail sector produced a total return of -8.1% for the year to March 2021. This comprised capital growth of -12.9% and income return of 5.5%. Rental values fell -9.0% over the period and were negative across all sub-sectors, ranging from -20.1% to -1.4%. Retail sub-sector capital growth ranged from -27.4% to 3.6%. Supermarkets were the only retail sub-sector to record positive capital growth. Equivalent yields for retail property now stand at 6.7% (March 2020: 6.4%).

According to Property Data, the total investment volume for the year to March 2021 was £41.5 billion, a -28% decrease on the year to March 2020. The volume of investment by overseas investors in the year to March 2021 was £19.5 billion, accounting for 47% of all transactions.

When looking at average returns at the All Property level, the year to March 2021 was disappointing but not surprising given the plight some sectors faced during the pandemic. However as always, the devil is in the detail as there was a marked range of returns across sectors. At the March 2021 year end the difference between the highest and lowest performing sectors has never been more polarised. There are risks and heightened uncertainty to navigate but also opportunity and optimism regarding the speed and strength of recovery in the latter half of 2021. Low interest rates and low returns from Government bond yields make investment into well-let commercial property with a secure income stream an attractive proposition.

Our Marketplace continued

Market drivers and impacts

Market driver	Impact
Covid-19 The Covid-19 pandemic has been a significant disruptor to many aspects of life since the first lockdown began in March 2020. The legacy of the pandemic will be far reaching and is yet to be fully realised. The impact of the pandemic affects the economic, property, technology and environmental market drivers described below and is referenced throughout this Report. The vaccine rollout is now well underway and we are following the UK Government's roadmap to post-Covid normality. Our Covid-19 response	— Economic, social, environmental and health ramifications will be felt throughout the world for many years to come. — For the property sector, the accelerated changes in the way we live, work, socialise and shop are likely to have a lasting impact on the built environment.
Economy Since March 2020 and the first national lockdown, the UK has been on a pathway of increased understanding, adaptation and coping with the Covid-19 pandemic. Subsequent lockdowns were less severe on the economy, allowing the UK to avoid a double dip recession. There has been extensive Government stimulus to protect businesses and livelihoods. Not all parts of the economy have been equally affected. The success of the UK's vaccination programme is expected to allow a strong and rapid recovery during the second half of 2021. There are some elements of the Brexit transition process still underway. Amongst issues still to be determined are passporting rights for financial services.	— The Government reportedly plans to invest in infrastructure, the green economy and support ailing towns in order to stimulate economic growth. — Interest rates are expected to stay lower for longer. — The household savings ratio has remained at an elevated level, with the potential to boost consumer spending when restrictions are lifted. — Due to the stimulus package, UK Government borrowing has reached the highest levels since World War II. Necessary tax increases will impact UK businesses and households in the medium-term. There is an increased risk of inflationary pressure.
Property cycles The property market is cyclical, with performance linked to economic growth. The balance of supply and demand in the investment and occupier markets impact pricing and rental growth respectively. Historically, all property sectors have moved through cycles broadly in unison; however, more recently there is a greater divergence between sectors. The declines in property values as result of Covid-19 were more strongly felt in retail and leisure; periods of forced closure, increased online spending, retail failures and CVAs all blighted the sector. Industrial property rallied during 2020 as demand for warehousing grew, helped by an acceleration in online spending.	— The retail sector has been operating within a very challenging environment, with declining rents and capital values. There has been a recent improvement in retail capital value growth, particularly for retail warehouses and supermarkets, however it is yet to be known if all sub-sectors have reached a nadir. — The impact of working from home during the pandemic on offices has caused uncertainty within the sector and led to a decline in capital values. There is increased polarisation between Grade A and other offices, with many occupiers pursuing a flight to quality. — There is high demand from both occupiers and investors within the industrial sector leading to further price rises.

Market drivers and impacts

Market driver	Impact
Technology The technology trends set to directly impact the property sector in the short to medium-term are wide ranging, from smart building technology, the 5G network, increased adoption of electric vehicles, Artificial Intelligence, robotics, Big Data and Cloud Computing. Competitiveness in a post-pandemic world will depend on a company's ability to thrive in the digital environment. The use of analytics to make data-backed decisions provides confidence to investors. Property sectors are all uniquely impacted by technological advances in multiple areas, with each facing its own benefits and challenges.	— Remote working, flexible working and reduced business travel are facilitated by the advancement of online communications platforms. Although accelerated by the pandemic, these working patterns will continue in some form of hybrid model. — The Government's agenda to ban sales of new combustion engines by 2030 will shape requirements for electric vehicle charging where we live, work and shop, with implications for buildings, power supply and parking arrangements. A longer-term consideration is the rollout of the 5G network, enabling driverless vehicles. — There is a heightened need for data storage and datacentres. Big Data, Artificial Intelligence, Machine Learning and Cloud Computing are shaping the future of the workforce and the requirements for buildings in which they operate. Bolstering cyber security and secure data storage is high on corporate agendas. — For retailers, investment in online platforms and fulfilment is paramount. The proportion of online spending is unlikely to revert to pre-pandemic levels. Longer-term, the increased use of robotics, electric industrial vehicles and drones has the potential to impact the way online orders are fulfilled and industrial property is occupied.
Environmental and social responsibility During lockdown there has been increased reflection and environmental awareness, with particular focus on climate change. The year could be seen as the tipping point for organisations embedding climate risk into corporate strategy and considering the impacts of climate change on investments. The Government has declared a target of bringing all UK greenhouse gas emissions to net zero by 2050. With the pandemic amplifying social injustices and inequalities, societal value has also moved up the corporate agenda. There is recognition that we need to transition to a fairer and greener economy.	— Sustainability is becoming widely and fully embedded into Government and corporate agendas. — TCFD is promoting the improvement and increased reporting of climate-related financial information and enabling progress to be measured against science-based targets. — The social and human cost of achieving success is increasingly considered. Society is holding Government and corporations accountable for the wider impact of investment decisions. — It is fully recognised that there are heightened costs associated with owning and occupying non-energy efficient buildings and there is a price premium on those which meet modern requirements. — Occupiers are increasingly considering employee wellbeing when selecting work space. Natural light, biophilia, fitness facilities and other occupier amenities all provide a competitive edge.

Throughout the year the acceleration in structural changes within the main property sectors has contributed to increased polarisation of performance.

The industrial sector has benefitted from the increase in online consumer spending to the detriment of bricks and mortar retail, whilst enforced working from home is likely to lead to a longer-term shift towards a more hybrid model of home and office-based working.

Our Covid-19 response

Industrial market trends

2020 was a strong year for the industrial sector, which saw high levels of occupational demand, particularly for logistics units, as retailers and third-party logistics companies invested in fulfilment of online orders in response to the pandemic. The proportion of retail spend online reached a record high and is not expected to revert to pre-pandemic levels. Last mile logistics requirements have sustained upward pressure on rents, particularly in urban locations.

The sector is also experiencing strong investor demand, with capital values increasing 9.6% in the year to March 2021. The industrial sector accounted for 29% of total investment volumes at a value of £12 billion. There is strong competition to invest in industrial assets which has driven yields down.

The outlook for the industrial sector is a continuation of these trends. Standard industrial units in London and the South East are forecast to be amongst the top performing sub-sectors in the short to medium-term.

What this means for Picton

- The accelerated structural shift towards online retail, growth in delivery apps and increased expectation for shorter delivery times mean industrial property continues to remain in demand. The portfolio is well positioned by being overweight to the industrial sector.
- Our occupier focused approach has enabled us to capitalise on strong demand for industrial property and grow ERVs through new lettings, renewals and rent reviews.

Our response to these trends

- We will continue to capture rental growth through new lettings and proactive portfolio management.
- We will strategically maintain our overweight position to the sector.
- We will continue to acquire complementary assets where possible, whilst remaining selective given the recent increase in pricing.
- We envisage only limited and selective disposals.

Office market trends

With office workers proving during the pandemic that working from home is a viable option, many companies are likely to incorporate an element of flexible and home working post-pandemic in a hybrid model, but the office is by no means redundant.

Reflecting uncertainty surrounding the sector, during the year to March 2021, capital values decreased -4.5% and yields moved out 20 basis points. Rental values declined -1.0%.

The role of the office is evolving into a hub for face-to-face interaction, collaboration and team building, and plays an important part in attracting talent, showcasing company culture, training and mentoring. The layout is likely to change, with the ratio of desk to collaborative meeting space switching, leading to less densely populated offices rather than a dramatic reduction in floorspace. Occupiers are seeking higher quality, digitally capable, sustainable spaces with a greater emphasis on employee wellbeing.

Vacancy rates have risen but remain low by historic standards, and with limited new supply in the pipeline it is not expected that rental values will suffer more than a short-term dip. London and large city centre office markets are forecast to perform better than the All Property average.

What this means for Picton

- The office sector now brings a heightened level of risk, as long-term working from home continues to impact the sector.
- With weaker occupier demand, the focus is on quality of office space. Our offices must continue to go above and beyond occupiers' expectations.
- We will need to provide more flexible leasing arrangements reflecting the current market.
- There is a greater emphasis on wellbeing within the office environment.

Our response to these trends

- We will continue to actively manage the office portfolio and engage with existing and potential occupiers to grow occupancy and income.
- We have been upgrading space, focusing on amenities, and making improvements in energy efficiency.
- Due diligence and research will ensure that the office portfolio is positioned in the most accessible and desirable locations.
- We will be increasingly selective when considering office acquisitions.

Retail and Leisure market trends

Both the retail and leisure sectors have been severely affected by the pandemic and occupier failures. The retail sector has experienced a price correction, with capital values falling -12.9% and rents down -9.0% in the year to March 2021.

Even as restrictions ease and trade improves, it looks unlikely that there will be sufficient demand to fill the high numbers of vacant units. The sector faced oversupply and legacy issues prior to the pandemic which have only been exacerbated.

The UK Government's change in use class restrictions will gradually allow repurposing of retail space and tackle the demand/supply balance in the longer-term. Until the oversupply is addressed in town centres, we do not expect to see any significant recovery in capital or rental values.

However, it is increasingly apparent that there is not a 'one size fits all' outlook for retail and leisure property. Retail warehouses are starting to plateau and are forecast to strongly outperform shopping centres and high street retail.

What this means for Picton

- We will continue to maintain an underweight position to the retail and leisure sectors.
- We have had to provide rent holidays and assistance on a bespoke basis to help our occupiers through the crisis.
- We expect rental income in this element of the portfolio to remain reduced in the short to medium-term.

Our response to these trends

- We will seek to maintain occupancy, even if this means having to accept lower rental levels.
- We will continue to reposition retail assets and reduce our weighting through disposals, seeking opportunities to sell to special purchasers and owner-occupiers where appropriate.
- With revised pricing, we will look cautiously at potential acquisitions within selective retail sub-sectors.

We have a strategy focused on delivering our purpose

Purpose

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs. To us this means being a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Strategy

In order to deliver on our purpose, we have in place three distinct strategic pillars: Portfolio Performance, Operational Excellence and Acting Responsibly. These pillars include a range of strategic priorities which guide the direction of our business and are regularly reviewed.

Integrating sustainability into our corporate strategy

We believe that sustainability has to be fully embedded into all of our activities. A responsible and ethical approach to business is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions will help us to manage risk and continue to generate value.

Read more on pages **54–61**

Portfolio Performance

1 Creating and owning a portfolio which provides income and capital growth

2 Growing occupancy and income profile

3 Enhancing asset quality, providing space that exceeds occupier expectations

Sustainable buildings
See pages **54-61**

4 Outperforming the MSCI UK Quarterly Property Index

Associated Risks

2 4 5 6 7 8

Connected KPIs

A C D G I J

Operational Excellence

1 Maintaining an efficient operating platform, utilising technology as appropriate

2 Having an agile and flexible business model, adaptable to market trends

3 Delivering earnings growth

4 Having an appropriate capital structure for the market cycle

5 Growing to deliver economies of scale

Associated Risks

1 3 4 10 11

Connected KPIs

E F H

Acting Responsibly

1 Ensuring we maintain our company values, positive working culture and alignment of the team

Our employees
See pages **54-61**

2 Working closely with our occupiers, shareholders and other stakeholders

Stakeholder engagement
See pages **54-61**

3 Ensuring sustainability is integrated within our business model and how we and our occupiers operate

Environmental focus
See pages **54-61**

Associated Risks

4 9

Connected KPIs

B K L

Read more on pages **30-33** and pages **49-51**

We have increased occupancy and continued to deliver upper quartile returns, whilst supporting our occupiers through an incredibly difficult period.

Michael Morris
Chief Executive

Despite the challenges of this year, we have been able to successfully navigate the disruption caused by the Covid-19 pandemic and deliver positive results which highlight the strength and resilience of the business.

£34m
Profit after tax

£528m
Net assets

97p
NAV per share

6.6%
Total return

It has probably been one of the hardest 12-month periods in which to operate, and few could have foreseen the scale and extent of the disruption caused by lockdown rules. As a team, we have worked remotely for the whole year and have only all been able to meet in person on one socially distanced occasion. The team has pulled together incredibly well and we have been able to run the business effectively, helped to some extent by our small size and nimble approach. We have not made redundancies, furloughed any employees or needed any form of Government support.

We have supported our occupiers this year and provided help where needed. This has required a delicate balance, but to have achieved the financial results we have, whilst simultaneously supporting so many of our occupiers throughout the year, is an accomplishment we are particularly proud of. Set out below is a summary of our performance against our strategic priorities. Almost all our KPIs show progress against the previous year and further details are provided in that section of the Report.

Portfolio Performance

We have continued to outperform the MSCI UK Quarterly Property Index and have delivered upper quartile performance for the sixth consecutive year. Over the year we ranked 24 out of the 232 portfolios in the MSCI benchmark and over the longer-term have ranked 15 out of 99 portfolios over the 15 years since inception.

Despite the impact of lower rent collection, we have been able to grow income across the portfolio on a like-for-like basis through letting and asset management activity, which has generated additional income. We have had to think creatively around some of the occupier assistance that we have given this year. Despite having a short-term impact on income, this has delivered longer-term value for our investors. Examples of this are where leases have been extended, rent reviews have been agreed in advance or longer-term payment plans have been put in place. Pleasingly, the contractual passing rent and ERV of the portfolio have both grown during the year.

We have continued to improve the portfolio and reposition assets. As we upgrade space we are also thinking about the quality of accommodation from a wellbeing and environmental perspective. These are both themes that have become increasingly relevant during lockdown. We have converted retail to office premises and have obtained planning consent to convert leisure into offices, for a project that is due to complete this year. This will further help to reduce our overall retail and leisure exposure, which now stands at only 11%.

Operational Excellence

Our portfolio positioning and conservative gearing mean that we were in a strong position entering this crisis. At an early stage, we took the prudent but difficult decision to reduce the dividend, because at that time it was not clear how damaging the impact of lockdown restrictions would prove to be across our occupiers' businesses and to our financial performance.

Over the year, we have received 92% of the rents due and this led us to partially restore the dividend in November 2020 and then in February 2021, such that the current dividend is 91% of the pre-pandemic level. We maintained a covered dividend throughout the year with our EPRA earnings remaining stable relative to last year, an outcome that was less certain 12 months ago.

We have been able to reduce costs, both our own operating costs and also for our occupiers, particularly in offices which were not fully occupied. As we have grown occupancy during the year, this has further helped to reduce costs. Finance costs are lower, following the repayment of our revolving credit facilities at the end of last year, and further debt amortisation this year. Administrative expenses are also lower and by relocating to a former retail void within the portfolio there will be further savings in the future.

We are mindful that growth will deliver benefits through the economies of scale embedded within our internalised model. Whilst we have sought to acquire assets this year, the investment market has been disrupted with lower investment volumes.

We made one disposal during the year and no acquisitions, despite considering a number of opportunities as investment markets opened up in the latter part of 2020.

Acting Responsibly

This is at the heart of what we do, but there has never been a year when our occupiers have needed more support. In many instances, they have not been able to fully utilise our buildings. Our occupier focused approach and commitment through the Picton Promise of - Action, Community, Technology, Support and Sustainability, has never resonated so loudly.

In total over the year we have provided some form of support to nearly one third of our occupiers. The team has dealt with all occupiers personally, agreeing bespoke solutions depending on the occupier, the type of asset and lease terms. A very small proportion of our occupiers have not paid and refused to engage, but until the Government moratorium on recovery of rent arrears ends, these discussions will be postponed until a later date.

Our Covid-19 response

Read more on pages **26–27**

We will continue to create opportunities from our existing portfolio.

Michael Morris
Chief Executive

For the year we wrote off £1.6 million of debts, and increased the provision against occupier debtors by £0.2 million, with the total provision at 31 March 2021 standing at £1.6 million. Of the occupiers we have helped, the level of assistance has varied, from allowing a more flexible payment plan, generally in the form of monthly rather than quarterly payments, to instances where we have agreed some form of short-term rent write-off. In some cases, these reductions have been tied into future events, e.g. future rent reviews, lease breaks and extensions or, where there has been no conditionality, based on need. We have tried to be fair in our approach and would hope that our longer-term view will be recognised in future relationships.

Our Responsibility Committee has made good progress on sustainability matters and has identified clear targets for material issues. During the year we joined the Better Buildings Partnership and our focus now is on our commitment to becoming net zero carbon. This is detailed in the Being Responsible section of this Report.

As mentioned previously, the team has worked incredibly hard this year under difficult circumstances. I would hope that despite our physical remoteness we have been able to maintain the culture and values that underpin our business. We have been there for employees when needed and our employee engagement feedback supports this. Our recent move to Stanford Building significantly improves the quality of our workspace and we will see the full benefit of this once lockdown restrictions ease. Similarly we have engaged with shareholders virtually and have discussed activity and progress throughout the year in conjunction with our brokers and corporate advisers. We continue to maintain an 'open door' policy and aim to be as transparent as possible in the way we communicate.

Outlook

Our portfolio structure, conservative gearing and potential to grow income and value through leasing activity put us in a strong position looking forward. We have invested in the portfolio in recent years, upgrading the quality of accommodation, giving us confidence in our ability to let it.

The pandemic and its impact are sadly not completely behind us, and there are likely to be more hurdles to overcome. The impacts of the unwinding of Government support, the continued efficacy of the vaccine and speed in which we return to normal, including tourism, travel and even the daily commute to the office, are still not clear.

We will continue to create opportunities from our existing portfolio and more widely as the UK gradually returns to life as normal and lockdown conditions ease.

Michael Morris
Chief Executive
26 May 2021

Our strategy in action

Operational Excellence

Our proactive approach to asset management alongside our operational flexibility provides opportunities to restructure the portfolio as we see appropriate.

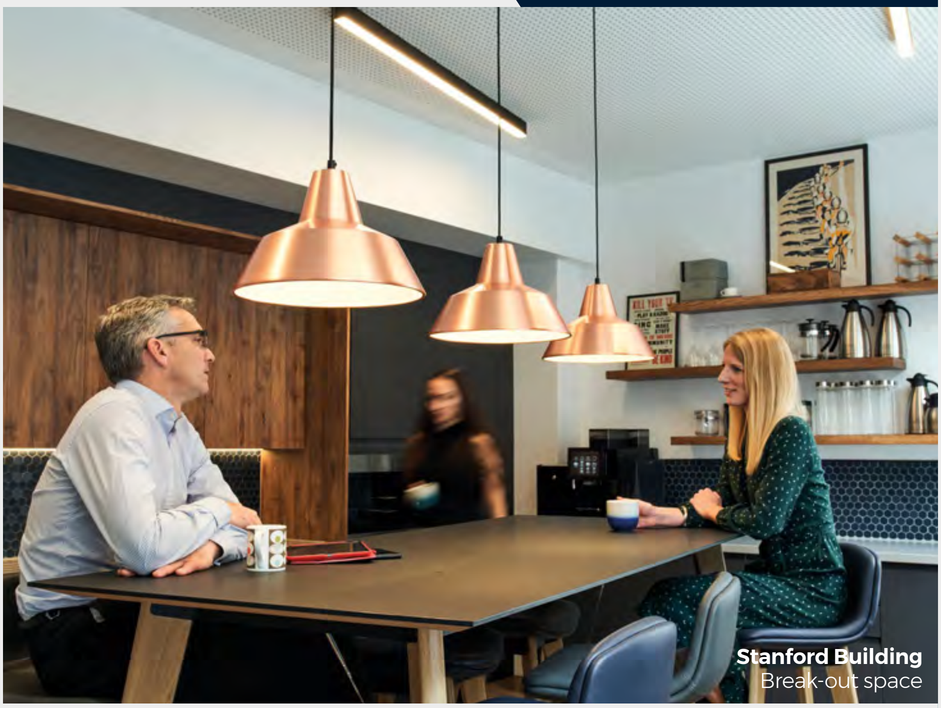
Having an agile and flexible business model, adaptable to market trends

We have restructured the portfolio over the year to reduce our retail and leisure exposure further, through a disposal and repositioning of an asset. We now have 53% of the portfolio in industrial, 36% in offices and only 11% in retail and leisure.

Bridge Street, Peterborough, a high street retail asset, was sold for £4.0 million in December. The property comprises two retail units, with one let to TK Maxx who are vacating in June 2021 and the other vacant and previously occupied by New Look. The asset was sold to Peterborough City Council who intend to convert the building into a new city library and community hub. The sale price was 30% ahead of the March 2020 valuation.

We completed the refurbishment of Stanford Building and enhanced the value by obtaining planning consent to convert the first floor from ancillary retail to office space. The change of use makes the remaining retail space more appealing to potential occupiers who are seeking smaller stores, whilst the first floor office ERV is nearly double the previous retail ERV. We have now been able to reclassify this asset as a West End office, being the predominant value use.

Regency Wharf in Birmingham is a two-building leisure scheme located adjacent to the iconic Gas Street Basin in central Birmingham.



Stanford Building
Break-out space

We have obtained planning consent for a change of use to offices in respect of the vacant rear building. The building will be fully refurbished this year and will provide self-contained warehouse style space overlooking the canal. The office ERV is nearly double the previous leisure ERV.

Regency Wharf
Proposed refurbishment

Our strategy in action

Acting Responsibly

Working with our occupiers is fundamental to what we do and this year our long-standing relationships with our occupiers has enabled us to provide support effectively where needed.

Our Covid-19 response

Working closely with our occupiers, shareholders and other stakeholders during the pandemic

The year has been dominated by the Covid-19 pandemic and one of the reasons we have been able to navigate the crisis is due to our close working relationships with our occupiers. Some of these relationships have been in place for over 15 years, built up through our stable team and occupier focus, which means all our occupiers can contact us directly for support.

We have had a long relationship with the London Ambulance Service, who occupy a unit at our estate in Bromley-by-Bow. We were delighted to have been able to assist them at the start of the pandemic, when they needed urgent additional storage for Covid-19 related supplies. Within 24 hours of receiving their request for help, we leased to them, rent-free, a vacant unit which they occupied for four months.

Sarah's Coffee Shop
Colchester Business Park

Opening my first business during a pandemic was a daunting task, but with the support of my landlord Picton and loyal customers I am delighted I took the opportunity!

Owner and founder
Sarah's Coffee Shop

I just want to say a big thank you to Picton for your support with this unit. These are difficult and challenging times for all of us but we have managed to navigate through it in a short space of time.

Programme Manager
London Ambulance Service NHS Trust

We have on a case-by-case basis helped occupiers, especially small independent retailers, caterers, leisure occupiers and businesses severely affected by the lockdown restrictions, whereby we have agreed deferred rents, reduced rents and rent holidays dependent on circumstance.

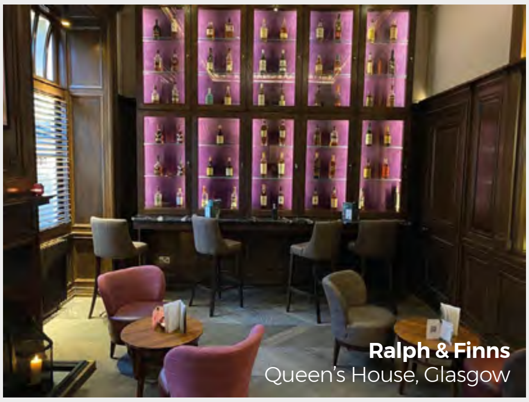
We have also been able to help our occupiers by providing upfront incentives to assist cash flow during the lockdown but improving the income profile in return. This type of transaction helps an occupier now and secures us a longer-term income stream, which creates value.

At 50 Farringdon Road, London we removed an occupier's 2022 break option securing £0.2 million per annum, which is subject to review until 2027 and in return provided the occupier with a rent-free incentive. In another transaction, we surrendered a lease in return for a small premium and immediately re-let the suite to an existing occupier who required expansion space. The building remains fully leased. We are currently replacing the air-conditioning system which will improve the EPC rating from a D to a B and reduce running costs. The replacement will also remove the natural gas supply from the building in line with our environmental targets.

The restaurant at Queens House, Glasgow, was closed due to the lockdown restrictions. We let the space to the family-run business in 2006 and have a good working relationship with them. By providing a rent-free holiday, the occupier was able to invest in a complete refurbishment of the 180-seat restaurant. We continue to work with our occupier as lockdown restrictions end and have put in place a stepped rent arrangement to assist the launch of their new concept.

During the year we have upgraded our own office accommodation by relocating to Stanford Building and ending our lease in the City. This will improve the working environment for our employees and provide us with flexibility for growth going forward.

London Ambulance Service


Ralph & Finns
Queen's House, Glasgow

Our strategy in action

Portfolio Performance

We believe it is important to continue to invest in our assets, to mitigate the impact of depreciation, improve their attractiveness in the marketplace and enhance letting prospects.

50 Pembroke Court
Chatham

401 Grafton Gate
Milton Keynes

Enhancing asset quality, and providing space that exceeds occupier expectations

At 50 Pembroke Court, Chatham, we comprehensively refurbished the ground floor office suite improving the EPC from a D to a B. The majority of the refurbishment cost was covered by the dilapidations claim from the outgoing occupier. The building provides some of the best space available in the local market and we were pleased to secure the Government on a ten-year lease, subject to a break, at a rent in line with ERV, for a third of the space. We have interest in the remaining space.

The common areas at 401 Grafton Gate, Milton Keynes were fully refurbished including LED lighting, break-out space, and new office entrances. The works, combined with installing LED lighting for our occupiers, has improved the EPC from an E to a C. Four lease renewals were agreed securing a 41% increase on the previous passing rent to £0.6 million per annum and maintaining full occupancy of the building.


Parkbury Industrial Estate
Radlett

Growing occupancy and income

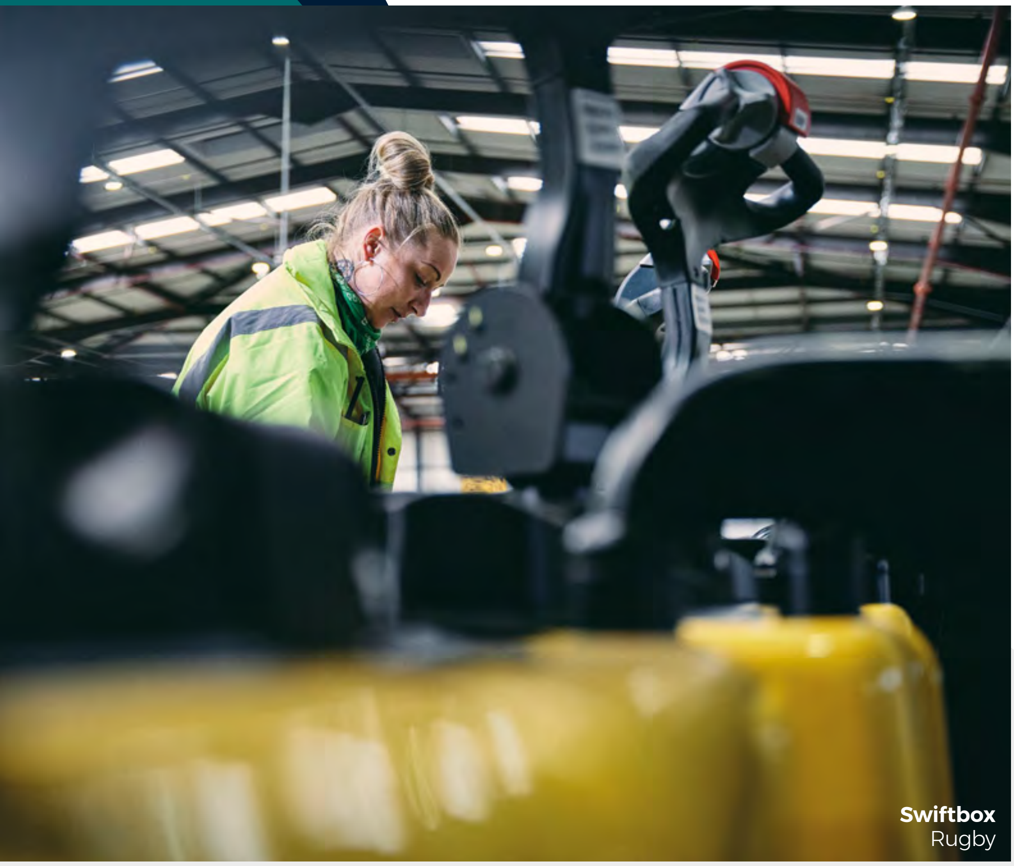
By working closely with our occupiers and investing in our assets, we have been able to grow occupancy and income over the period resulting in significant outperformance against the MSCI UK Quarterly Property Index.

At Parkbury Industrial Estate in Radlett, which is well located alongside the M25 and close to the M1, we have been able to maintain full occupancy throughout the year and drive income through active management. Two rent reviews were agreed, increasing the passing rent by 25%, one lease was renewed for a further 15 years, subject to break, at a rent 35% ahead of the previous passing rent and we extended a lease by five years to 2031 securing future income of £0.3 million per annum.

Following completion of the refurbishment of Swiftbox, Rugby, in March 2020, which improved its EPC rating from an E to a B, we leased the entire 99,500 sq ft distribution unit to UPS, on a 12-month lease, with the option to extend for up to a further six months. UPS has taken up the option, so the lease now expires in March 2022. The letting immediately generated an annual income of £0.6 million, which was 4% ahead of ERV.

We completed the refurbishment of Stanford Building in Covent Garden, London, providing Grade A space with excellent occupier amenities including showers and changing facilities. We were pleased to welcome our first occupier to the second floor on a five-year lease, subject to break, 5% ahead of ERV.

At River Way, Harlow, we refurbished two units and agreed two rent reviews increasing the passing rent by 11%. Two occupiers expanded on the estate both taking five-year leases in line with ERV, with a further lease extended to March 2023, increasing rent by 27%.


Swiftbox
Rugby

Measuring the success of the business

We have a range of key performance indicators that we use to measure the performance and success of the business.

We consider that industry standard measures, such as those calculated by MSCI, are appropriate to use alongside certain EPRA measures and others that are relevant to us. This year we have adopted the new EPRA net asset value metrics in this Report, replacing EPRA net asset value per share with EPRA net tangible assets (NTA) per share.

In this regard, we consider that the EPRA NTA per share, earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

Key performance indicators are also used to determine variable remuneration rewards for the Executive Directors and the rest of the Picton team. The indicators used are total return, total shareholder return, total property return and EPRA earnings per share. This is set out more fully in the Remuneration Report.

Remuneration link

For more information on EPRA Best Practices Recommendations see pages **127-129**

Total return (%)

A

2021	6.6
2020	4.5
2019	6.5

Why we use this indicator

The total return is the key measure of the overall performance of the Group. It is the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid.

The Group's total return is used to assess whether our aim to be one of the consistently best performing diversified UK REITs is being achieved, and is a measure used to determine the annual bonus.

Our performance in 2021

Our industrial assets helped deliver strong valuation gains over the year, together with an increase in occupancy and cost reductions helping to improve EPRA earnings, which has led to a 50% increase in profit compared to the previous year.

1 2 3

Total shareholder return (%)

B

2021	0.0
2020	3.6
2019	10.1

Why we use this indicator

The total shareholder return measures the change in our share price over the year plus dividends paid. We use this indicator because it is the return seen by investors on their shareholdings.

Our total shareholder return relative to a comparator group is a performance metric used in the Long-term Incentive Plan.

Our performance in 2021

Despite a strong recovery in the share price in the latter half of the year our total shareholder return was flat over the year, reflecting the discount to net asset value.

1 2 3

Total property return (%)

C

2021	7.3
2020	5.3
2019	7.5

Why we use this indicator

The total property return is the combined income and capital return from our property portfolio for the year, as calculated by MSCI. We use this indicator because it shows the success of the portfolio strategy without the impact of gearing and corporate costs.

Our total property return relative to the MSCI UK Quarterly Property Index is a performance condition for both the annual bonus and the Long-term Incentive Plan.

Our performance in 2021

We have outperformed the MSCI UK Quarterly Property Index, delivering an upper quartile return of 7.3% compared to the Index return of 1.2% for the year, and we have also outperformed on a three, five and ten year, and since inception basis.

Loan to value ratio (%)

E

2021	20.9
2020	21.7
2019	24.7

Why we use this indicator

The loan to value ratio is total Group borrowings, net of cash, as a percentage of the total portfolio value. This is a recognised measure of the Company's level of borrowings and is a measure of financing risk. See the Supplementary Disclosures section for further details.

Our performance in 2021

The loan to value ratio has reduced further this year as the portfolio value has risen and there has been continued amortisation of the debt. No new borrowings were taken out in the year.

Property income return (%)

D

2021	4.7
2020	4.8
2019	5.6

Why we use this indicator

The property income return, as calculated by MSCI, is the income return of the portfolio. Income is an important component of total return and our portfolio is biased towards income generation.

Our performance in 2021

The income return for the year of 4.7% was ahead of the MSCI UK Quarterly Property Index of 4.5%, and we have also outperformed on a three, five and ten year, and since inception basis.

Cost ratio (%)

F

2021	1.0
2020	1.1
2019	1.1

Why we use this indicator

The cost ratio, recurring administration expenses as a proportion of the average net asset value, shows how efficiently the business is being run, and the extent to which economies of scale are being achieved. See the Supplementary Disclosures section for further details.

Our performance in 2021

The cost ratio has reduced to 1.0% this year as savings in administrative expenses have been made, together with the increase in net asset value.

Key Performance Indicators continued

EPRA NTA per share (pence)

G

2021	97
2020	93
2019	93

Why we use this indicator

The EPRA net tangible assets (NTA) per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business. We use this to measure the growth of the business over time and regard this as the most relevant net asset metric for the business.

Our performance in 2021

The EPRA NTA per share has increased by 3.7% this year, due to valuation gains, particularly in the industrial portfolio, and the high dividend cover achieved.

1 2 3

EPRA vacancy rate (%)

I

2021	8.8
2020	11.5
2019	10.3

Why we use this indicator

The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period, and over the long-term, is an indication of the success of asset management initiatives undertaken.

Our performance in 2021

In what has been a very difficult year for the leasing market the fall in our EPRA vacancy rate highlights the success of our occupier focused approach.

1 2 3

EPRA earnings per share (pence)

H

2021	3.7
2020	3.7
2019	4.3

Why we use this indicator

The earnings per share, calculated in accordance with EPRA, represents the earnings from core operational activities and excludes investment property revaluations, gains/losses on asset disposals and any exceptional items. We use this because it measures the operating profit generated by the business from the core property rental business.

The growth in EPRA earnings per share is also a performance measure used for the annual bonus and the Long-term Incentive Plan.

Our performance in 2021

EPRA earnings per share has remained at 3.7 pence, with the positive impact of higher occupancy and lower costs being offset by increased provisions against income receivable.

1 2 3

Retention rate (%)

J

2021	88
2020	53
2019	49

Why we use this indicator

This provides us with a measure of asset suitability and occupier satisfaction over the year.

Our performance in 2021

This figure was significantly higher than in 2020, reflecting retention of some of our key occupiers. Total ERV at risk due to lease expiries or break options totalled £6.6 million, identical to last year. In addition a further £4.2 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Employee satisfaction (%)

L

2021	85
2020	83
2019	N/A

Why we use this indicator

We use this indicator to assess our performance against one of our strategic objectives, to nurture a positive culture reflecting the values and alignment of the Picton team. The indicator is based on the employee survey carried out during the year.

Our performance in 2021

We are pleased that there has been a small improvement in the employee satisfaction score, despite the added difficulties of the whole team working remotely throughout the year.

EPC ratings (%)

K

2021	92
2020	89
2019	82

Why we use this indicator

Energy Performance Certificates (EPC) indicate how energy efficient a building is by assigning a rating from 'A' (very efficient) to 'G' (very inefficient). A higher EPC rating is likely to lead to lower occupational costs for occupiers.

Our performance in 2021

The proportion of EPC ratings between A to D has increased on the prior year and now makes up 92% of the total portfolio. We improved the ratings of 20 EPCs during the year.

Proactive management

Through engaging proactively with our occupiers, we have had success in managing the portfolio despite the many challenges caused by the Covid-19 pandemic.

Key facts

46
Portfolio assets

91%
Occupancy

£37m
Passing rent

£45m
Estimated rental value

We ended the year with like-for-like increases in the portfolio valuation, passing rent and estimated rental value (ERV). It has been another busy year in terms of portfolio transactions, despite the national lockdowns, with the number completed close to that of the previous year.

We have continued to invest in the portfolio, repositioning assets and enhancing the quality and lettability of space, resulting in an increase in occupancy over the period to 91%, up from 89% in the prior year.

Our relationships with our occupiers have been fundamental during the year, and we have been able to help where required.

We are guided by our Picton Promise of Action, Community, Technology, Support and Sustainability, all key commitments which have assisted our occupiers during the pandemic.

Performance

Our portfolio now comprises 46 assets, with around 350 occupiers, and is valued at £682 million with a net initial yield of 4.8% and a reversionary yield of 6.3%. Our asset allocation, with 53% in industrial, 36% in office and 11% in retail and leisure, combined with an investment disposal and transactional activity, has enabled us to deliver upper quartile performance and outperform the MSCI UK Quarterly Property Index over the year.

Overall, the like-for-like valuation was up 3.2%, with the industrial sector up 13%, offices declining by -5% and retail and leisure declining by -9%. This compares with the MSCI UK Quarterly Property Index recording capital value declines of -3.2% over the period.

The overall portfolio passing rent is £36.5 million, an increase from the prior year of 2% on a like-for-like basis. This was a result of the industrial portfolio rents growing by 6%, office rents growing by 2%, being offset by retail and leisure rents decreasing by -7%. Regional offices saw rental growth of 3%, offset by declines in London of -2%, which was more severely affected by the working from home guidance and a reluctance to travel on public transport.

The March 2021 ERV of the portfolio is £45.4 million, an increase from the prior year of 1% on a like-for-like basis. Positive growth in the industrial sector of 4% was offset by the negative growth in the retail sector of -3%, while the office portfolio was static over the period with increases in the regions offset by London.

We have set out the principal activity in each of the sectors in which we are invested and believe our strategy and proactive occupier engagement will continue to assist us in managing the portfolio during the current business climate.

The industrial sector has been the least affected by the Covid-19 pandemic, with strong occupational demand outstripping supply, especially in London and the South East where 75% of our portfolio is located. Investment demand has been strong with multiple buyers for well-located assets, which combined with a lack of stock has driven up pricing.

The office sector was significantly affected by the working from home guidance and although all our offices remained open and Covid-19 compliant, building occupancy was significantly reduced. The change in working patterns has made businesses reflect on their future office strategy and during the year demand was subdued. We are however, now seeing some encouraging signs that the market is improving following the news that vaccination is proving effective, with the number of enquiries and lettings going under offer steadily increasing, albeit from a low base. Against this background, we have had letting success and we have succeeded in retaining occupiers.

The retail and leisure sector has been hit hard by the forced closures, resulting in a number of well-known businesses disappearing from the high street. Government measures halting action to pursue arrears have exacerbated the problem, with some occupiers purposefully not paying. Occupier demand has been muted, with retail vacancies, especially on the high street and in shopping centres, increasing substantially. Despite this, we have been able to work with our occupiers and have fortunately not had many insolvencies, and in the majority of cases, we have been able to mitigate these.

We believe the portfolio is well placed in respect of our sector allocations and, combined with the quality of our assets, we will be able to continue to drive performance going forward.

Activity

We have had another good year in respect of active management transactions. We completed 17 rent reviews, 7% ahead of ERV, 30 lease renewals or regears, 10% ahead of ERV and 25 lettings or agreements to lease, 3% ahead of ERV. One retail asset was sold for gross proceeds of £4.0 million, 30% ahead of the March 2020 valuation.

Over the year we have invested £5.0 million into the portfolio across ten key projects. These have all been aimed at enhancing space to attract occupiers, improve sustainability credentials and grow income. Major projects are currently underway at Regency Wharf, Birmingham, where we are converting leisure space to offices, and at Longcross, Cardiff, where we are carrying out a comprehensive refurbishment to update the office building.

Portfolio Review continued

Our largest void is Stanford Building on Long Acre in Covent Garden, London, accounting for over a quarter of the total. The refurbishment was completed during the period. We were pleased to welcome our first occupier to the second floor and we have moved into the first floor, following an expiry of our lease in the City. This move has allowed us to reduce costs and provided us with flexibility going forward.

We are continually focused on futureproofing assets from a sustainability perspective, which has resulted in an improvement in our EPCs with 92% now rated D and above.

The average lot size of the portfolio is £14.8 million, 5% ahead of last year.

Retention rates and occupancy

Over the year, total ERV at risk due to lease expiries or break options totalled £6.6 million, consistent with the year to March 2020.

Excluding asset disposals, we retained 88% of total ERV at risk in the year to March 2021. Of leases that were due to expire during the year, 93% of ERV was retained. Of leases that had a break clause in the year, 67% of ERV was retained.

In addition, a further £4.2 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Occupancy has increased during the year from 89% to 91%, which is slightly behind the MSCI UK Quarterly Property Index of 92% at March 2021. The increase primarily reflects the success of the refurbishment programme in 2020, meaning we were able to attract new occupiers and that occupancy increased in all sectors of the portfolio. At the year-end, over half of our vacant buildings were being refurbished and with the rest available to let and being actively marketed.

Of our total void of £4.0 million by ERV, 85% is in offices, 14% is in retail and only 1% is in industrial.

Longevity of income

As at 31 March 2021, expressed as a percentage of contracted rent, the average length of the leases to the first termination was 4.9 years (2020: 5.5 years). This is summarised as follows:

	%
0 to 1 year	11.9
1 to 2 years	13.8
2 to 3 years	13.5
3 to 4 years	13.6
4 to 5 years	18.9
5 to 10 years	20.0
10 to 15 years	6.9
15 to 25 years	0.1
25 years and over	1.3
Total	**100.0**

Top ten assets

The largest assets as at 31 March 2021, ranked by capital value, represent 55% of the total portfolio valuation and are detailed below.

Assets	Acquisition date	Property type	Tenure	Approximate area (sq ft)	No. of occupiers	Occupancy rate (%)
Parkbury Industrial Estate, Radlett, Herts.	03/2014	Industrial	Freehold	343,800	21	100
River Way Industrial Estate, Harlow, Essex	12/2006	Industrial	Freehold	454,800	10	100
Angel Gate, City Road, London EC1	10/2005	Office	Freehold	64,600	20	68
Stanford Building, Long Acre, London WC2	05/2010	Office	Freehold	20,100	2	33
Datapoint, Cody Road, London E16	05/2010	Industrial	Leasehold	55,100	6	100
Tower Wharf, Cheese Lane, Bristol	08/2017	Office	Freehold	70,600	5	83
Shipton Way, Rushden, Northants.	07/2014	Industrial	Leasehold*	312,900	1	100
50 Farringdon Road, London EC1	10/2005	Office	Leasehold*	31,300	4	100
Lyon Business Park, Barking, Essex	09/2013	Industrial	Freehold	99,400	9	100
Colchester Business Park, Colchester	10/2005	Office	Leasehold	150,700	22	97

*Denotes leasehold interest in excess of 950 years.

Outlook

The impact of the pandemic and consequent lockdowns has led to a very uncertain operating environment.

We have been able to adapt to the 'new normal' and although occupational requirements have, outside the industrial sector, been far more muted, we have secured new occupiers. We have achieved this through embracing new technologies, creating virtual tours, and thinking more laterally as to how we can market our buildings with social distancing measures in place.

Our focus remains on working with our occupiers and this year has shown more than any the importance of our long-standing relationships and the benefit of our approach. This has enabled us to navigate through these uncertain times and to end the year in a positive position. As at 31 March 2021 the portfolio had £9 million of reversionary income potential, £4 million from letting the vacant space, £3 million from expiring rent-free periods and £2 million where the passing rent is below market level.

Demand for our industrial properties remains robust as proven by our high occupancy and growing ERVs. With this sector accounting for 53% of the total portfolio by value, we believe it will continue to contribute strongly to our outperformance.

Business activity is beginning to pick up in the office sector where 36% of our portfolio is allocated, and we have attractive refurbished space in which we have increasing interest. We believe there is pent-up demand, especially in the regions, and this will come through as the year progresses with demand focusing on flexible Grade A space. In addition, we are now offering fitted space, ready to occupy, which we believe is where the market is heading in respect of smaller suites, especially in London.

The retail and leisure sector has been severely affected by the Covid-19 pandemic; however, we are more positive about retail warehousing which makes up 60% of our retail allocation. We have succeeded in letting retail warehouse units during the year at our two parks which were refurbished in 2020 and have strong interest in our last remaining retail warehouse void. Our high street portfolio is over 90% leased and we have no shopping centre exposure.

We remain in a strong position with advantageous portfolio weightings, good quality assets and a proven occupier focused approach. Looking forward, we remain focused on continuing to grow occupancy and income, engaging with our occupiers and investing further into our assets.

Jay Cable
Senior Director and Head
of Asset Management
26 May 2021

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2021, are as follows:

Occupier	Contracted rent (£m)	%
Public sector	2.1	5.0
Whistl UK Limited	1.6	3.9
B&Q Plc	1.2	3.0
The Random House Group Limited	1.2	2.8
Snorkel Europe Limited	1.2	2.8
XMA Limited	1.0	2.3
Portal Chatham LLP	0.8	1.9
DHL Supply Chain Limited	0.8	1.9
Canterbury Christ Church University	0.7	1.6
PA Consulting Services Limited	0.6	1.5
Total	**11.2**	**26.7**

Industrial

The industrial sector, which accounts for 53% of the portfolio, again had the strongest sector performance of the year producing double digit returns.

This was a result of the portfolio being almost fully let, active management extending income, securing rental uplifts and continued strong occupational demand for the smaller units, which resulted in further rental growth, especially in London and the South East. This, combined with continued strength in the investment market, has resulted in another strong year for this element of the portfolio.

On a like-for-like basis, our industrial portfolio value increased by £42.4 million or 13.3% to £360.7 million, and the annual rental income increased by £0.9 million or 5.6% to £16.9 million. The portfolio has an average weighted lease length of 4.3 years and £2.4 million of reversionary potential.

We have seen ERV growth of 3.9% across the portfolio and are experiencing demand across all of our estates. Occupancy is 99.8%, with the only void being one small unit in Wokingham which has recently been refurbished.

Portfolio activity

Swiftbox, Rugby, was our largest void at the beginning of the year. Following completion of the refurbishment, we leased the entire 99,500 sq ft distribution unit to UPS, on a 12-month lease, with the option to extend for up to a further six months. UPS has taken up the option, so the lease now expires in March 2022. The letting immediately generated an annual income of £0.6 million, which was 4% ahead of ERV.

At Parkbury, Radlett, we have driven income though active management. Two rent reviews were agreed, increasing the passing rent by 25%, one lease was renewed for a further 15 years, subject to break, at a rent 35% ahead of the previous passing rent and we extended a lease by five years to 2031, securing £0.3 million per annum.

At Vigo 250, Washington, we were pleased to be able to provide cash flow assistance as an incentive and settle the June 2021 rent review, securing a 5% uplift to £1.2 million per annum, 12% ahead of ERV.

At River Way, Harlow, we restructured a lease and secured longer income until March 2023. As part of the same transaction, the August 2021 rent review was brought forward to January 2021 and settled, securing a 27% uplift to £0.8 million per annum, 27% ahead of ERV. Two further rent reviews were agreed, increasing the passing rent by 11%, one lease was renewed for a further five years, at a rent 15% ahead of the previous passing rent, and two units were leased for a combined £0.2 million per annum, in line with ERV.

At Datapoint in London E16, following the completion of a rent review, we achieved a 68% uplift in rent to £0.4 million per annum, 24% ahead of ERV. One unit was leased for a minimum term of five years at a rent of £0.1 million per annum, 7% ahead of ERV.

At Sundon Business Park, Luton, following the completion of a rent review, we achieved a 57% uplift in rent to £0.1 million per annum, 11% ahead of ERV. Three leases were renewed, the passing rent increasing by 47% to a combined £0.3 million per annum, 10% ahead of ERV.

Outlook

The Covid-19 pandemic has had a limited impact on the industrial sector, with strong demand, low vacancy rates and increasing rents, especially in respect of the smaller multi-let estates. Where occupiers have been affected by the pandemic, we have been able to work with most of them to resolve the position, and if needed, usually these units are easily re-let.

We do not anticipate a slowdown in demand, and combined with limited stock availability we expect continued rental growth, especially in respect of the smaller units in Greater London and the South East, where there remains a lack of supply and a limited development pipeline. We do not expect rental growth to come through on the larger units to the same extent, due to the development pipeline, and the ability for occupiers to build bespoke space.

The focus going forward is to maintain high occupancy, continue to capture rental growth, and work proactively with our occupiers to unlock asset management transactions. We have 24 lease events forecast for the coming year, and the overall ERV for these units is 23% higher than the current passing rent of £2.2 million. This provides us with the opportunity to grow income and value further.

Swiftbox
Rugby

Key metrics

£360.7m
Valuation
(2020: £318.3m)

2.6m sq ft
Internal area
(2020: 2.6m sq ft)

£16.9m
Annual rental income
(2020: £16.0m)

£19.3m
Estimated rental value
(2020: £18.6m)

100%
Occupancy
(2020: 96%)

16
Number of assets
(2020: 16)

Locations

1
Parkbury Industrial Estate
Radlett
343,800 sq ft – Freehold

2
River Way Industrial Estate
Harlow
454,800 sq ft – Freehold

3
Datapoint
London E16
55,100 sq ft – Leasehold

4
Shipton Way
Rushden
312,900 sq ft – Leasehold

5
Lyon Business Park
Barking
99,400 sq ft – Freehold

6
Sundon Business Park
Luton
127,800 sq ft – Leasehold

7
Grantham Book Services
Grantham
336,100 sq ft – Leasehold

8
The Business Centre
Wokingham
101,000 sq ft – Freehold

9
Nonsuch Industrial Estate
Epsom
41,400 sq ft – Leasehold

10
Vigo 250
Washington
246,800 sq ft – Freehold

11
Easter Court
Warrington
81,800 sq ft – Freehold

12
1 & 2 Kettlestring Lane
York
157,800 sq ft – Freehold

13
Swiftbox
Rugby
99,500 sq ft – Freehold

14
Western Industrial Estate
Bracknell
41,200 sq ft – Freehold

15
Abbey Business Park
Belfast
61,700 sq ft – Freehold

16
Magnet Trade Centre
Reading
13,700 sq ft – Freehold

Office

The office sector, which accounts for 36% of the portfolio, delivered the second strongest performance of the year, with the regions outperforming London.

With limited occupational demand due to the Covid-19 pandemic, our focus has been occupier retention and marketing our vacant properties using virtual tours and socially distanced viewings.

We have been able to lease space in a difficult market, securing £1.1 million of income, and have worked with our occupiers to extend income and surrender leases where we can secure a premium and immediately re-lease the space.

On a like-for-like basis, our office portfolio value declined by £13.8 million or -5.3% to £245.4 million; however, the annual rental income increased marginally by £0.3 million or 2.0% to £13.1 million. The portfolio has an average weighted lease length of 3.5 years and £5.9 million of reversionary potential.

Although occupational demand has been muted, it has been stronger in the regions than in London. The ERV of the portfolio has remained static over the year, with declines in London of -2.9% being offset by increases in the regions of 0.9%. We invested £4.1 million into our office assets during the period and completed key projects, including at Tower Wharf, Bristol, 50 Pembroke Court, Chatham, and Stanford Building, London. We have had letting success at all three buildings.

On a like-for-like basis, occupancy has increased over the period to 82%.

Portfolio activity

At Grafton Gate, Milton Keynes, which was comprehensively refurbished last year, we retained two occupiers on lease expiry. Four leases were renewed, enabling us to increase the passing rent by 29% to a combined £0.6 million per annum, 11% ahead of ERV.

At Tower Wharf, Bristol, we were pleased to welcome a new occupier to part of the first floor on a ten-year lease subject to break, at a rent of £0.2 million per annum, marginally below ERV. We also agreed the letting of the whole fourth floor to a new occupier, with the vacating occupier paying a premium of £0.2 million to facilitate the transaction. We currently have two suites available, which are being refurbished. The common areas were comprehensively refurbished last year, and we believe there is occupational demand which will come through as the year progresses.

At 50 Pembroke Court, Chatham, we comprehensively refurbished a vacant floor with the majority of the cost being covered by the outgoing occupier's dilapidations. The floor has been split with a third let to the Government on a ten-year lease, subject to break, at £0.1 million per annum, which is in line with ERV.

At 50 Farringdon Road, London we surrendered a suite and immediately re-let it to an existing occupier who required expansion space at a rent of £0.2 million per annum, in line with ERV. The transaction met both occupiers' requirements and potentially will allow us to enter into a longer lease in due course. In another transaction, we removed an occupier's 2022 break option securing £0.2 million per annum, which is subject to review, until 2027 and in return provided the occupier with a rent-free incentive, which assisted their cashflow during the Covid-19 pandemic.

Our largest office void is Stanford Building, London. We completed the refurbishment and enhanced the value of the office floors and obtained planning to convert the first floor from ancillary retail to office space. We have relocated to this floor, which provides a great working environment. We were pleased to welcome a new occupier to the second floor on a five-year lease, subject to break, 5% ahead of ERV.

Outlook

Working from home as a result of the Covid-19 pandemic has caused a huge amount of business uncertainty; however, this is beginning to ease and the initial reaction of businesses thinking of disposing space is now being reconsidered.

We believe the flight to quality has been accelerated by the pandemic, with businesses wanting to provide best-in-class space to attract their staff back to the office. Sustainability is also now a key factor in choosing a building and older stock, where the capital expenditure required to upgrade is prohibitive, will be converted to other uses.

The regions have outperformed London, primarily we believe due to people not wanting to commute on public transport. We can see a push to get people back to the office later this year, with companies embracing a more flexible policy in respect of working from home.

We have invested £9.7 million into our office portfolio over the last three years, creating high quality contemporary space and occupier amenities, meaning our buildings remain attractive to occupiers.

We have 36 lease events forecast for the coming year, with the current ERV for these units being 1.8% higher than the current passing rent of £2.5 million and an 18% void, with an ERV of £3.4 million, providing us with the opportunity to significantly grow income and value.

Tower Wharf, Bristol
Refurbished reception area

Key metrics

£245.4m

Valuation
(2020: £259.1m)

0.8m sq ft

Internal area
(2020: 0.8m sq ft)

£13.1m

Annual rental income
(2020: £12.9m)

£19.0m

Estimated rental value
(2020: £19.0m)

82%

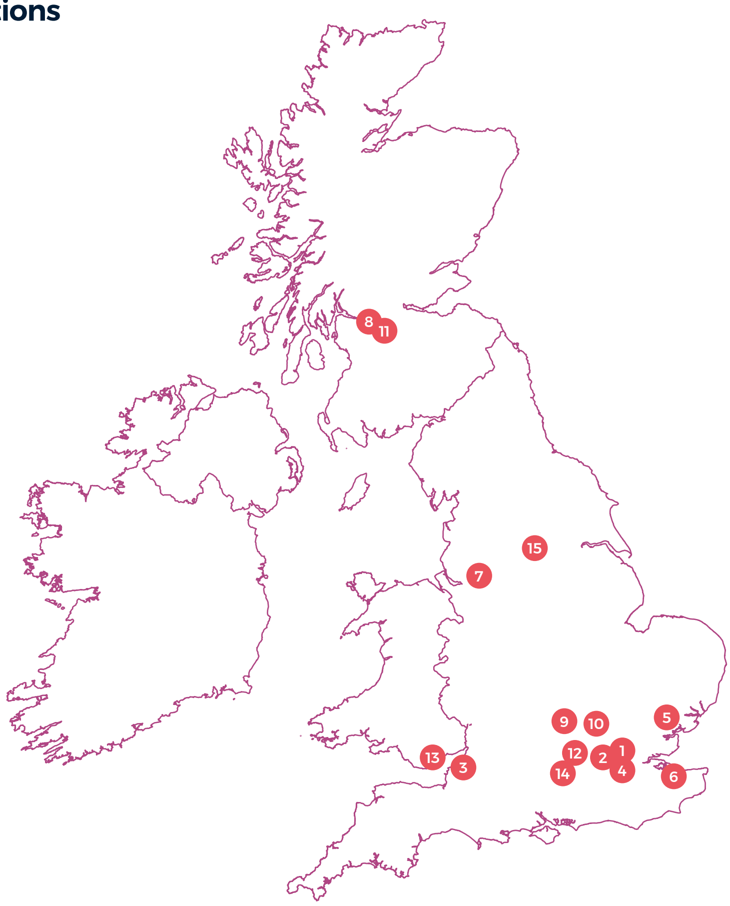
Occupancy
(2020: 81%)

15

Number of assets
(2020: 15)

*The 2020 figures have been restated to reflect Stanford Building now reclassified as an office

Locations



1
Angel Gate
London EC1
64,600 sq ft – Freehold

2
Stanford Building
London WC2
20,100 sq ft – Freehold

3
Tower Wharf
Bristol
70,600 sq ft – Freehold

4
50 Farringdon Road
London EC1
31,300 sq ft – Leasehold

5
Colchester Business Park
Colchester
150,700 sq ft – Leasehold

6
30 & 50 Pembroke Court
Chatham
86,100 sq ft – Leasehold

7
Metro
Manchester
71,000 sq ft – Freehold

8
180 West George Street
Glasgow
52,100 sq ft – Freehold

9
401 Grafton Gate East
Milton Keynes
57,200 sq ft – Freehold

10
Trident House
St Albans
19,000 sq ft – Freehold

11
Queens House
Glasgow
49,400 sq ft – Freehold

12
Atlas House
Marlow
24,800 sq ft – Freehold

13
Longcross
Cardiff
72,100 sq ft – Freehold

14
Sentinel House
Fleet
33,500 sq ft – Freehold

15
Waterside House
Leeds
25,200 sq ft – Freehold

Retail and Leisure

The retail and leisure sector, which accounts for 11% of the portfolio, delivered the weakest performance of the year.

The Covid-19 pandemic and subsequent lockdowns have had a severe effect on an already weak bricks and mortar retail and leisure market, with changing shopping habits accelerating the demand for warehouse space.

Against this tough backdrop, we had success at our retail warehouse parks which account for 60% of our retail and leisure portfolio. Retail warehousing has been more resilient due to the ability of shoppers to be able to park and the size of the units being better suited to social distancing.

On a like-for-like basis, our retail and leisure portfolio value decreased by £7.8 million or -9.3% to £76.3 million, and the annual rental income decreased by £0.5 million or -7.0% to £6.4 million. The portfolio has an average weighted lease length of 9.0 years and £0.6 million of reversionary potential to £7.1 million per annum.

The retail parks in Bury and Swansea were comprehensively refurbished in 2020 and this has helped us to attract new occupiers and grow the passing rent on the retail warehouse portfolio by 1.3%, with only one vacant unit at year end in which we already have interest.

We have also worked with a number of our occupiers to extend leases in exchange for upfront incentives. Smaller independent retailers have been supported over the year to ensure they are ready to reopen, and we avoid the costs associated with vacant units.

Occupational demand was very weak over the year, with vacancy rates increasing as retailers exited leases on expiries and breaks and multi-national retailers such as Debenhams and Arcadia Group disappeared from the high street, further increasing the number of vacant shops. Correspondingly, rental values have declined and retailers with requirements have more choice and can negotiate substantial incentives.

We have seen negative ERV growth of -2.8% across the portfolio; however, pleasingly we have been able to increase occupancy, on a like-for-like basis, during this difficult period to 92%. We invested £0.6 million into the retail portfolio during the period to improve space and facilitate lettings.

Portfolio activity

At Parc Tawe Retail Park, Swansea, over half of our retailers remained open during the lockdowns as they were classed as essential retailers. Both Xercise4Less and Poundstretcher were subject to insolvency proceedings; however, we were able to mitigate the effect by securing JD Gyms and Deichmann Shoes as new occupiers, with a 13% reduction in the passing rent and both of whom have refurbished the units. The one vacant unit, at the end of a terrace, has been put under offer via an Agreement for Lease to the Government, subject to planning, who are taking a new five-year lease, subject to a break in three years, at a rent of £0.1 million per annum, in line with ERV. This means the park is fully let with 70% of the income secured for over five years and three leases benefitting from fixed rental increases.

At Angouleme Way Retail Park, Bury, we assisted an occupier by removing a 2022 break option in return for a rent-free incentive, securing income until 2024. Another unit was let to JYSK on a ten-year lease, subject to a break in five years, at a rent of £0.1 million per annum, in line with ERV. We have one unit available to lease, accounting for 21% of the park by floor area in which we have interest.

At Briggate, Leeds, where we have two high street retail properties, we extended both leases in return for a reduced rent securing income until 2026. The combined rent was reduced by 38% to £0.2 million per annum, which is still 33% ahead of ERV.

At Fishergate, Preston, following a comprehensive refurbishment we let the entire first floor to Slaters Menswear on a new ten-year lease, subject to a break at year five, at £0.1 million per annum which is in-line with ERV. The property is now fully leased with JD Sports and Tessuti on the ground floor.

Bridge Street, Peterborough, was sold in December. The property comprises two retail units, with one let to TK Maxx who are vacating in June 2021 and the other vacant and previously occupied by New Look. The asset was sold for £4.0 million, 30% ahead of valuation.

Our largest retail void is the unit within Stanford Building, London, (now reclassified as an office), which has been refurbished and is being marketed. The unit is in a prime Covent Garden location and provides unique space arranged over two floors. We have had some interest, but expect better terms as the lockdown eases.

Outlook

The retail and leisure sector has undergone a severe structural change, which has been accelerated by the Covid-19 pandemic. There is an oversupply of floorspace, especially in the shopping centre and high street sub-sectors. Demand will be there for prime well-configured space, with secondary units being unable to attract occupiers. This stock will have to be repurposed and planning law has changed to make this easier; however, with such a severe oversupply we cannot see the position changing in the short-term.

We are however more positive about the retail warehouse sector, where we have 60% of our retail and leisure weighting. We have been successful in securing new occupiers over the year and our parks have remained busy. Valuations, which have moved down over the past few years, are now stabilising.

With the lockdown ending and most retail and leisure having re-opened, improving consumer confidence will give businesses the help they need to start recovering.

Parc Tawe North Retail Park
Swansea

Key metrics

£76.3m
Valuation
(2020: £87.2m)

0.7m sq ft
Internal area
(2020: 0.8m sq ft)

£6.4m
Annual rental income
(2020: £7.3m)

£7.1m
Estimated rental value
(2020: £7.6m)

92%
Occupancy
(2020: 91%)

15
Number of assets
(2020: 16)

*The 2020 figures have been restated to reflect Stanford Building now reclassified as an office

Locations

1
Queens Road
Sheffield
105,600 sq ft – Freehold

2
Parc Tawe North Retail Park
Swansea
116,700 sq ft – Leasehold

3
Gloucester Retail Park
Gloucester
113,900 sq ft – Freehold

4
Angouleme Retail Park
Bury
76,200 sq ft – Free/Leasehold

5
Thistle Express
Luton
81,600 sq ft – Leasehold

6
Regency Wharf
Birmingham
42,500 sq ft – Leasehold

7
Crown & Mitre Complex
Carlisle
25,200 sq ft – Freehold

8
Scots Corner
Birmingham
30,000 sq ft – Freehold

9
53-57 Broadmead
Bristol
13,200 sq ft – Leasehold

10
78-80 Briggate
Leeds
7,700 sq ft – Freehold

11
17-19 Fishergate
Preston
59,900 sq ft – Freehold

12
72-78 Murraygate
Dundee
9,700 sq ft – Freehold

13
7-9 Warren Street
Stockport
8,700 sq ft – Freehold

14
6-12 Parliament Row
Hanley
17,300 sq ft – Freehold

15
18-28 Victoria Lane
Huddersfield
14,600 sq ft – Leasehold

Financial Review

The total profit for the year was £33.8 million, up over 50% compared with 2020.

Andrew Dewhirst
Finance Director

This financial year has been unparalleled as a result of the Covid-19 pandemic, with UK GDP declining by -9.8% in 2020, the largest fall on record.

Many sectors of the economy have been badly disrupted by the lockdowns and other restrictions, particularly retail, leisure and travel. We have not been immune to this, but have been fortunate in having limited exposure to the more badly hit retail and leisure sectors. Our results for the year are very positive in the context of the backdrop in which we have been operating.

The total profit for the year was £33.8 million, which is higher than both 2020 and 2019. Our EPRA earnings increased to £20.1 million. Earnings per share were 6.2 pence overall (3.7 pence on an EPRA basis), and the total return based on these results was 6.6% for the year.

£33.8m
Profit after tax

£20.1m
EPRA earnings

6.2p
Earnings per share

Net asset value

The net assets of the Group increased to £528.2 million, or 97 pence per share, which was a rise of 3.7% over the year. The chart below shows the components of this increase.

	£m
March 2020 net asset value	509.3
Income profit	20.1
Valuation movement	12.8
Profit on asset disposals	0.9
Share-based awards	0.7
Purchase of shares	(0.6)
Dividends paid	(15.0)
March 2021 net asset value	**528.2**

The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA).

	2021 £m	2020 £m	2019 £m
Net asset value – IFRS and EPRA NTA	**528.2**	509.3	499.4
Fair value of debt	**(21.0)**	(29.6)	(24.8)
EPRA NDV asset value	**507.2**	479.7	474.6
Net asset value per share (pence)	**97**	93	93
EPRA net tangible asset value per share (pence)	**97**	93	93
EPRA net disposal value per share (pence)	**93**	88	88

Income statement

As noted above our EPRA earnings for the year have increased compared to 2020, rising 0.6% to £20.1 million. Within that, property revenue has reduced as expected during the pandemic, but there have been savings in both property costs and administrative expenses, and finance costs are also lower.

Total revenue from the property portfolio for the year was £43.3 million. Rental income, at £36.6 million, was lower by 3.2% compared to 2020, which was due to asset disposals and additional provisions made against income as a result of the pandemic despite an increase in occupancy. On a like-for-like basis, rental income increased marginally by 0.2% compared to the previous year, on an EPRA basis.

Rent collection over the year has held up well, but the variations between different business sectors have been quite apparent. Our policy of engaging with occupiers from an early stage has been beneficial, and the amount of rent concessions that we have granted has been limited, at only 4% of rent due over the year. The table below sets out a summary of our rent collection over the last year.

Our Covid-19 response

Rent due 25 March 2020 to 24 March 2021	Industrial (%)	Office (%)	Retail and Leisure (%)	**Total (%)**
Collected	91	97	85	**92**
Deferred	1	–	4	**1**
Concessions agreed	4	2	8	**4**
Outstanding	4	1	3	**3**

For the year we wrote off £1.6 million of debts, and increased the provision against occupier debtors by £0.2 million, with the total provision at 31 March 2021 standing at £1.6 million. We continue to engage with occupiers to resolve all amounts outstanding.

Property void costs reduced by 27% to £2.2 million, reflecting both the increase in occupancy over the year and the lower service charge costs attributable to vacant units.

Administrative expenses for the year were £5.4 million, again lower than the previous year, by 3%. Savings were made against a number of corporate level costs.

Interest costs are also lower this year at £8.0 million, due to the loan repayments that we made towards the end of the last financial year. There were no drawdowns made under the new revolving credit facility.

Capital gains on the portfolio were £13.7 million for the year, with positive valuation movements during the year. There was divergence across the sectors, with the industrial assets showing significant gains, while retail and leisure assets were more adversely impacted by the pandemic.
One disposal was made during the year, realising a 30% gain compared to the March 2020 valuation.

The total profit for the year was £33.8 million, up over 50% compared with 2020.

Dividends

At the start of the pandemic, in common with many other property companies, we reviewed the level of our dividend and concluded that a prudent approach was appropriate, reducing the May 2020 dividend by 29%. We maintained this lower rate for two quarters and have subsequently increased it twice, initially by 12% and then by a further 14%, so that the dividend is now at 91% of the pre-pandemic level, as rent collection rates have remained robust. The dividend for the year was 2.75 pence per share, with total dividends paid out of £15.0 million. Dividend cover for the full year was 134%.

EPRA Best Practices Recommendations

The EPRA key performance measures for the year are set out on page 3 of the Report, with more detail provided in the Supplementary Disclosures section which starts on page 127. EPRA introduced updated Best Practices Recommendations effective for accounting periods starting after 1 January 2020, including new measures of net asset value. These are net tangible asset value, net disposal value and net reinstatement value. We have included these measures in this Report, and in the Supplementary Disclosures section we set out the calculations in more detail.

Alternative performance measures

We use a number of alternative performance measures (APMs) when reporting on the performance of the business and its financial position. These do not always have a standard meaning and may not be comparable to those used by other entities. However, we will use industry standard measures and terminology where possible.

In common with many other listed property companies we report the EPRA performance measures. We have reported these for a number of years in order to provide a consistent comparison with similar companies. In the Additional Information section of this Report we provide more detailed information and reconciliations to IFRS where appropriate.

Our key performance indicators include three of the key EPRA measures but also total return, total property return, property income return, total shareholder return, loan to value ratio, cost ratio, occupier retention rate and EPC ratings. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

Investment properties

The appraised value of our investment property portfolio was £682.4 million at 31 March 2021, up from £664.6 million a year previously. This year we have disposed of one small retail property, for net proceeds of £3.9 million, realising a gain of £0.9 million compared to last year's valuation. Our programme of capital expenditure has continued, with £5.0 million invested back into the portfolio. The main project undertaken was at Stanford Building in London WC2, where a full refurbishment has now completed. The overall revaluation movement across the portfolio was a gain of £12.8 million.

At 31 March 2021 the portfolio comprised 46 assets, with an average lot size of £14.8 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practices Recommendations, is set out in the Supplementary Disclosures section.

Borrowings

Total borrowings are now £166.2 million at 31 March 2021, with the loan to value ratio having reduced further to 20.9%. The weighted average interest rate on our borrowings is 4.2%, while the average loan duration is now 8.9 years.

Our senior loan facility with Aviva reduced by the regular amortisation, £1.3 million in the year.

The Group remained fully compliant with the loan covenants throughout the year.

During the year we completed a new single revolving credit facility with NatWest, replacing the two existing ones. The new £50 million facility is for an initial term of three years, until May 2023, with two one-year extensions available. Interest is currently payable at 150 basis points over LIBOR. We are currently undrawn under this facility.

The fair value of our borrowings at 31 March 2021 was £187.2 million, higher than the book amount. Lending margins have remained broadly in line with the previous year, but gilt rates have fallen in comparison.

A summary of our borrowings is set out below:

	2021	2020	2019
Fixed rate loans (£m)	**166.2**	167.5	168.7
Drawn revolving facilities (£m)	**–**	–	26.0
Total borrowings (£m)	**166.2**	167.5	194.7
Borrowings net of cash (£m)	**142.8**	143.9	169.5
Undrawn facilities (£m)	**50.0**	49.0	25.0
Loan to value ratio (%)	**20.9**	21.7	24.7
Weighted average interest rate (%)	**4.2**	4.2	4.0
Average duration (years)	**8.9**	9.9	9.8

Cash flow and liquidity

The cash flow from our operating activities was £18.6 million this year, ahead of 2020. We invested £5.0 million into the portfolio, largely offset by £3.9 million raised from the asset disposal. The lower dividends paid also helped to maintain cash. Our cash balance at the year-end stood at £23.4 million, very close to the balance at 2020.

Share capital

No new ordinary shares were issued during the year.

The Company's Employee Benefit Trust acquired a further 958,000 shares, at a cost of £0.6 million, or 67 pence per share, during the year. This was to satisfy the future vesting of awards made under the Long-term Incentive Plan and Deferred Bonus Plan, and now holds a total of 2,052,269 shares. As the Trust is consolidated into the Group's results these shares are effectively held in treasury and therefore have been excluded from the net asset value and earnings per share calculations, from the date of purchase.

Andrew Dewhirst
Finance Director
26 May 2021

Managing Risk

The Board recognises that there are risks and uncertainties that could have a material impact on the Group's results.

Risk management provides a structured approach to the decision making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board has developed a risk management policy which it reviews on a regular basis. The Audit and Risk Committee carries out a detailed assessment of all risks, whether investment or operational, and considers the effectiveness of the risk management and internal control processes. The Executive Committee is responsible for implementing strategy within the agreed risk management policy, as well as identifying and assessing risk in day-to-day operational matters. The management committees support the Executive Committee in these matters. The small number of employees and relatively flat management structure allow risks to be quickly identified and assessed.

The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out on the following pages, together with mitigating controls.

The UK Corporate Governance Code requires the Board to make a Viability Statement. This considers the Company's current position and principal and emerging risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment. The statement is set out in the Directors' Report.

Principal risk	Trend
1 Political and economic	Down
2 Market cycle	Down
3 Regulatory and tax	Stable
4 Climate change	Up
5 Portfolio strategy	Stable
6 Investment	Stable
7 Asset management	Stable
8 Valuation	Stable
9 People	Stable
10 Finance strategy	Down
11 Capital structure	Down

Our Covid-19 response

The global Covid-19 pandemic has caused an unprecedented level of disruption to economies globally. Restrictions have been in place to varying extents since the start of the pandemic in March 2020. Some sectors of the economy have been more severely impacted, particularly retail, leisure and tourism. However, since the start of the year the vaccine programme has gathered pace and there is a planned route to easing restrictions and opening up the economy.

The risks associated with the pandemic have impacted many of the principal and emerging risks set out here. There has been an impact on the Group's rent collection and cash flow, although this has been less significant than originally envisaged.

We have a diverse portfolio spread across the UK, with around 350 occupiers in a wide range of businesses. The cash flow arising from our occupiers underpins our business model. We are continuing to let space, although the number of transactions has reduced since the pandemic began. The material uncertainty clause, introduced by our valuers in March 2020, was subsequently removed.

We have considered in our Viability Statement the potential impact of various scenarios resulting from Covid-19 on the business.

Brexit

A new trading agreement was put in place with the EU at the end of 2020, ahead of the end of the transition arrangement, removing much of the uncertainty around this event.

Emerging risks

During the year the Board has considered themes where emerging risks or disrupting events may impact the business. These may rise from behavioural changes, political or regulatory changes, advances in technology, environmental factors, economic conditions or demographic changes. Some are already considered to be principal risks in their own right such as the impact of climate change, while others are reviewed as part of the ongoing risk management process.

The principal emerging risks have been identified to be:

— the impact of climate change;

— the ongoing effects of the Covid-19 pandemic on the economy and the property market, and potential legacy impacts on unemployment, inflation and Government borrowing;

— potential changes in the office market as businesses re-assess their needs in the light of flexible working;

— structural changes in the retail market, with the increasing prevalence of online retailing and the oversupply of physical space;

— the impact of technology giving rise to rapid changes in occupiers' businesses, and consequently on their space requirements;

— legislative and regulatory changes can bring risks to the commercial property market, such as changes to planning regulations or in the application of business rates.

These emerging risks are covered in more detail in the Marketplace section of the Report.

Read more on pages **16-17**

Risk management framework

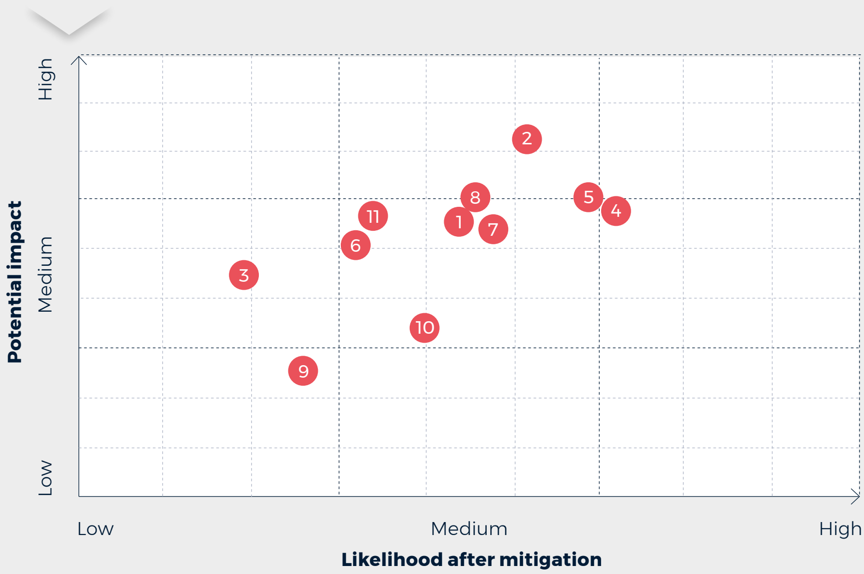
Board
- Has overall responsibility for risk management
- Determines business model
- Considers risk appetite

Executive Committee
- Implements strategy and risk policy
- Identifies and assesses risks
- Carries out risk mitigation

Audit and Risk Committee
- Recommends risk management policy
- Reviews internal controls
- Reviews detailed risk matrix
- Considers principal and emerging risks

Management Committees
- Review specific transaction risks
- Consider forthcoming legislation
- Review operational risk

The matrix below illustrates the assessment of the impact and likelihood of each of the principal risks.



Read more on pages **49-51**

Corporate Strategy

1

Political and economic

Risk trend

Risk

Uncertainty in the UK economy, whether arising from political events or otherwise, brings risks to the property market and to occupiers' businesses. This can result in lower shareholder returns, lower asset liquidity and increased occupier failure.

Mitigation

The Board considers economic conditions and market uncertainty when setting strategy, considering the financial strategy of the business and in making investment decisions.

Commentary

The impact of the pandemic in 2020 saw the largest ever contraction in UK GDP. A further decline occurred in the first quarter of 2021, with GDP contracting -1.5% to stand at -8.7% below the pre-pandemic level. With the rollout of the vaccine continuing, a rebound is forecast during the latter part of 2021, although with the risk of inflationary pressure.

Connected KPIs

A B C G H

Strategic Pillar

2

Market cycle

Risk trend

Risk

The property market is cyclical and returns can be volatile. There is an ongoing risk that the Company fails to react appropriately to changing market conditions, resulting in an adverse impact on shareholder returns.

Mitigation

The Board reviews the Group's strategy and business objectives on a regular basis and considers whether any change is needed, in light of current and forecast market conditions.

Commentary

It is likely that uncertainty in the property market will decline as restrictions ease.

Connected KPIs

C D

Strategic Pillar

3

Regulatory and tax

Risk trend

Risk

The Group could fail to comply with legal, fiscal, health and safety or regulatory matters which could lead to financial loss, reputational damage or loss of REIT status.

Mitigation

The Board and senior management receive regular updates on relevant laws and regulations.

The Group is a member of the BPF and EPRA, and management attend industry briefings.

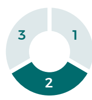
Commentary

There are no significant changes expected to the regulatory environment in which the Group operates.

Connected KPIs

A F

Strategic Pillar



4

Climate change

Risk trend

Risk

Failure to react to climate change could lead to the Group's assets becoming obsolete and unable to attract occupiers.

Mitigation

Sustainability is embedded within the Group's business model and strategy.

We are committed to developing our pathway to carbon net zero over the course of the coming year.

All refurbishment projects consider environmental impact and where possible seek improvements.

Commentary

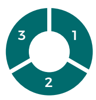
There is an increasing momentum to the issue of addressing climate change.

Investors are putting a greater emphasis on ESG credentials and occupiers are seeking more sustainable buildings.

Connected KPIs

A C J K

Strategic Pillar



Property

5

Portfolio strategy

Risk trend

Risk
The Group has an inappropriate portfolio strategy, as a result of poor sector or geographical allocations, or holding obsolete assets, leading to lower shareholder returns.

Mitigation
The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.

Commentary
The pandemic continues to impact many occupiers' businesses, particularly in the retail and leisure sectors. The longer-term impact of home working on the office sector is also unclear. The divergence of returns seen previously across sectors is expected to continue.

Connected KPIs
A
C

Strategic Pillar


6

Investment

Risk trend

Risk
Investment decisions may be flawed as a result of incorrect assumptions, poor research or incomplete due diligence, leading to financial loss.

Mitigation
The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval.

A formal appraisal and due diligence process is carried out for all potential purchases.

A review of each acquisition is performed within two years of completion.

Commentary
There is no change to this risk.

Connected KPIs
A
C

Strategic Pillar


7

Asset management

Risk trend

Risk
Failure to properly execute asset business plans or poor asset management could lead to longer void periods, higher occupier defaults, higher arrears and low occupier retention, all having an adverse impact on earnings and cash flow.

Mitigation
Management prepare business plans for each asset which are reviewed regularly.

The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval.

Management maintain close contact with occupiers and have oversight of the Group's Property Manager.

Commentary
Effective asset management continues to be key, engaging with occupiers to provide appropriate solutions while maintaining cash flow and occupancy.

Connected KPIs
C
I
J
K

Strategic Pillar


8

Valuation

Risk trend

Risk
A fall in the valuation of the Group's property assets could lead to lower investment returns and a breach of loan covenants.

Mitigation
The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer.

The Board reviews financial forecasts for the Group on a regular basis, including sensitivity and adequate headroom against financial covenants.

Commentary
Although there is still some economic uncertainty, valuations are more stable with improved market evidence. Valuers have removed the material uncertainty clause that was introduced at the start of the pandemic.

Connected KPIs
A
C
E

Strategic Pillar


Operational

9

People

Risk trend

Risk

The Group relies on a small team to implement the strategy and run the day-to-day operations. Failure to retain or recruit key individuals with the right blend of skills and experience may result in poor decision making and underperformance.

Mitigation

The Board has a remuneration policy in place which incentivises performance and is aligned with shareholders' interests.

There is a Non-Executive Director responsible for employee engagement who provides regular feedback to the Board.

Commentary

No employees were furloughed during the pandemic. The team has continued to work effectively from home, although a gradual return to the office is envisaged. Feedback from the employee engagement survey was positive.

Connected KPIs

F
H
L

Strategic Pillar

3 1 2

Financial

10

Finance strategy

Risk trend

Risk

The Group has a number of loan facilities to finance its activities. Failure to comply with covenants or to manage refinancing events could lead to a funding shortfall for operational activities.

Mitigation

The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer.

The Board reviews financial forecasts for the Group on a regular basis, including sensitivity against financial covenants.

The Audit and Risk Committee considers the going concern status of the Group biannually.

Commentary

The Group has significant headroom against its loan covenants. No additional borrowing has been incurred during the pandemic, and the Group's revolving credit facility remains undrawn.

Connected KPIs

C
D
E

Strategic Pillar

3 1 2

11

Capital structure

Risk trend

Risk

The Group operates a geared capital structure, which magnifies returns from the portfolio, both positive and negative. An inappropriate level of gearing relative to the property cycle could lead to lower investment returns.

Mitigation

The Board regularly reviews its gearing strategy and debt maturity profile, at least annually, in light of changing market conditions.

Commentary

The Group's gearing level has remained relatively low during the pandemic, and property values have been stable, reducing this risk.

Connected KPIs

A
C
E
G
H

Strategic Pillar

3 1 2

TCFD Disclosure

This year we have completed the review of our sustainability priorities and material issues. A key recommendation regarding one of those material issues, Climate Change Adaptation and Mitigation, was to start the journey towards net zero carbon and assess its feasibility. A related issue is to develop our reporting under the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

This is our first year in making disclosures in line with the TCFD recommendations. We expect these disclosures to evolve as we start to define our pathway to net zero carbon and further assess the risks relating to climate change.

Governance

Recommendation	Commentary
The Board's oversight of climate-related risks and opportunities	The Board has overall responsibility for risk management, including the consideration of climate-related risks, and for setting the Group's risk appetite. The Audit and Risk Committee is responsible for overseeing the development, implementation and maintenance of the Group's Risk Management Policy and its risk appetite.
Management's role in assessing and managing climate-related risks and opportunities	The Responsibility Committee meets regularly to consider all aspects of sustainability including risks and opportunities. Updates are provided to the Executive Committee which is responsible for implementing strategy within the agreed Risk Management Policy.

Read more on pages **76-78**

Strategy

Recommendation	Commentary
Climate-related risks and opportunities identified over the short, medium and long-term	An initial assessment of the climate-related risks over the short, medium and long-term has been set out below. Further identification of risks and opportunities will take place over the coming year. Short-term (0-5 years): Stricter legislation including the implementation of new Minimum Energy Efficiency Standards for commercial property and tightening of regulations which will increase property costs. Medium-term (5-10 years): Occupier demand for buildings with higher levels of efficiency, climate resilience and lower carbon footprints will increase. Long-term (15+ years): Climate change in the UK will bring more extreme weather conditions which may impact the portfolio.

Impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	The Board has identified that climate-related risks could impact on the Company by reducing: — the desirability of its assets to occupiers where buildings are considered to be unsuitable for their purpose; — the ability to sell assets as a result of a greater focus on climate-related risks; and — its access to capital and impact on reputation due to concerns over how well the portfolio is adapted for climate change. We are improving and adapting our assets through maintenance and energy efficiency upgrades. We will consider the climate-related risks and energy efficiency of potential acquisitions as part of due diligence.
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario Read more on pages **48–51**	The Board has recognised that climate change will have an impact on the business, and we have started to develop our plan to become a net zero carbon business and at the same time develop our identification and disclosure of climate-related risks. As part of this we will consider the impact of physical and transitional risks under different scenarios, including a scenario limiting global warming to 2˚C or lower.

Risk Management

Recommendation	**Commentary**
How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management Read more on pages **48–51**	The Board, Audit and Risk Committee and Executive Committee formally review the Group's principal risks. This includes climate-related risks, including their likelihood, impact and mitigating controls. The Board recognises that climate change is an increasingly important priority. Our risk matrix is regularly reviewed and updated to keep track of the changing nature of these risks.

Metrics and Targets

Recommendation	**Commentary**
Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	We report in line with EPRA Sustainability Best Practices Recommendations for sustainability reporting and include EPRA tables within our Sustainability Report.
Disclosure of Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	We disclose Scope 1, 2 and 3 greenhouse gas (GHG) emissions in our Annual Report and Sustainability Report.
Targets used by the organisation to manage climate-related risks and opportunities and performance against targets Read more on pages **54–57**	As we continue our assessment of climate-related risks and opportunities over the coming year we will develop appropriate metrics and targets against which to measure our performance.

Our responsible and ethical approach

We believe that sustainability has to be fully embedded into all of our activities.

A responsible and ethical approach to business is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions will help us to manage risk and continue to generate value.

More detail on how we approach sustainability and our progress this year can be found in our Sustainability Report, available on our website.

Our approach to sustainability

This year we developed our sustainability priorities. We will continue to fully integrate sustainability into our corporate strategy, while ensuring our sustainability priorities align with global and national expectations. When necessary, we will review these priorities to make sure they are fit for purpose and that we measure our progress appropriately.

See how each pillar is fully aligned to our corporate strategy on pages **20-21**

Our journey so far

2005 Sustainability governance
Since inception and upon listing in 2005, we have been committed to conducting business responsibly, and in a way that makes a positive contribution. Our Board provides governance oversight

2008 Focusing on the environment
Initial collection, measurement and analysis of environmental information to help identify and implement energy improvements across our buildings

2012 Operational excellence
Internalisation of Company's management

2013 Helping our occupiers succeed
Introduced our Picton Promise commitments and occupier focused approach

2014 EPRA Sustainability Best Practice
Started reporting against EPRA Sustainability Best Practices Recommendations

2016 Sustainability strategy established
Set five-year targets for reducing Scope 1 and 2 carbon emissions by 20%

2017 Focusing on employees
Alignment of team with shareholders through Long-term Incentive Plan

Transparent and accountable reporting
- GRESB reporting starts
- Started collecting occupier consumption data and introduced smart building technologies

2018 Conversion to a REIT
Established Responsibility Committee

Commitment to sustainable buildings
Introduced green lease clauses

2019 Sustainability reporting
Awarded first EPRA Gold for sustainability reporting

2020 Integrated sustainability into our corporate strategy
- Joined Better Buildings Partnership
- Awarded GRESB two Green star status

Looking ahead
Having met our 2016 targets, we are working towards developing ambitious new targets as we establish our pathway to net zero carbon.

Environmental focus

What we have done this year

- Carried out ESG audits at four office properties
- Improved our GRESB score and achieved two Green stars
- Maintained EPRA Gold award for sustainability reporting
- Exceeded 2016 five-year target with 57% reduction in Scope 1 and 2 GHG emissions
- Embarked on developing our net zero carbon pathway
- Undertaken biodiversity surveys at a number of properties
- Joined the Better Buildings Partnership

What we will do next year

- Aim to improve GRESB score further
- Define our pathway to net zero carbon
- Carry out a further four ESG audits
- Continue to build on our approach to biodiversity
- Continue to improve data capture and increase coverage across our portfolio

Net zero carbon pathway

This year we have completed the review of our sustainability priorities and material issues. A key recommendation regarding one of those material issues, Climate Change Adaptation and Mitigation, was to start the journey towards net zero carbon and assess its feasibility. This is a key challenge facing the real estate sector, with many companies beginning to publish their own net zero carbon pathways. A related issue is to develop our reporting under the Task Force on Climate-related Financial Disclosures recommendations. We have recognised that developing our net zero carbon pathway will require us to partner with a third party specialist, and are currently working through the selection process.

We intend to define our net zero carbon pathway and targets in line with the Better Buildings Partnership framework during the course of this year,

ESG audits

During 2020 four ESG audits were undertaken at Queens House, Glasgow, Metro, Manchester, 50 Farringdon Road, London and Tower Wharf, Bristol. A number of recommendations were made at each site for improvements which would result in energy and cost savings. The majority of these have now been actioned with the resulting payback starting in some cases from as soon as three months from completion of the works required and an overall annual saving of £60,000.

A further four surveys at 50 Pembroke Court, Chatham, Atlas House, Marlow, Longcross, Cardiff and 401 Grafton Gate, Milton Keynes have been commissioned for 2021 and we intend to review the recommendations of these and undertake further improvements where appropriate.

Biodiversity

During 2020 we have undertaken biodiversity surveys across our portfolio at properties with landscaped areas and as a result measures such as the installation of bug hotels, bird boxes and changes to planting regimes have been put into effect at several sites including Parkbury Industrial Estate, Radlett, Colchester Business Park, 50 Pembroke Court, Chatham, Tower Wharf, Bristol and Nonsuch Industrial Estate, Epsom. We will be undertaking further surveys across our sites during 2021 and have begun to engage with local wildlife trusts – for example Essex Wildlife Trust in Colchester – to obtain their recommendations on biodiversity measures which could be put into place.

Reporting

We recognise that it is important to be transparent on sustainability issues, so that our stakeholders can make informed decisions. We continue to report to GRESB and EPRA.

For 2020 GRESB introduced a new scoring methodology, which made comparisons with earlier years more difficult. Our score for 2020 was 65, and we achieved two Green Stars, up from one Green Star in 2019. Our overall score was four points ahead of 2019. We were also ahead of our peer group average. We have identified areas where we can improve our score further in future.

For the second year running we achieved a Gold award under the EPRA Sustainability Best Practices Recommendations.

Greenhouse gas emissions

The table below provides our GHG emissions covering the last three years. Where it states 'N/A', this is because data was not previously collected, calculated or available. In our 2021 Sustainability Report we detail our GHG emissions for the last five years. In 2016 we set a five-year target to reduce our Scope 1 and Scope 2 GHG emissions by 20%. Our overall reduction was 57%.

Scope 1

Our absolute Scope 1 emissions fell by 31% compared to the previous year to 799 tCO_2e. Similarly our Scope 1 intensity also fell by 30%. This was largely due to the impact of the lockdown restrictions on the occupancy of buildings during the year.

Scope 2

Our absolute Scope 2 emissions have decreased by 35% this year, to 1,479 tCO_2e, and our Scope 2 intensity also fell. As with Scope 1, the emissions reduced because of lockdown restrictions. We are also seeing the benefit of energy efficiency projects completed in the previous year, such as at Atlas House in Marlow. This year some major refurbishment projects have been carried out incorporating further environmental initiatives, including at Stanford Building, and we expect to see the impact of these on our Scope 2 emissions in future.

Scope 3

Scope 3 emissions include those of our occupiers, and this is the largest Scope 3 element. Data collection this year has been severely hampered by the pandemic, as occupiers have been unable to access buildings, and so the reported figures are heavily based on estimates. We will update these when we have received more accurate data. As expected, other Scope 3 emissions have also declined this year, with water consumption and waste disposal falling by 47%, and business travel by 76%.

Methodology

We have reported on all the emission sources required under the core requirements of EPRA's 'Best Practices Recommendations on Sustainability Reporting' 2020, and have voluntarily disclosed business travel, occupier and own premises consumption (Scope 3) emissions. An operational control approach has been adopted and all of our properties are included. Figures presented are absolute for utility and waste consumption and relate only to landlord-obtained utilities and waste removal. Occupier-obtained consumption is included where possible.

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and used emission factors from UK Government's GHG Conversion Factors for Company Reporting 2020. Where data was unavailable in kilogrammes or tonnes for waste, we used average volumes to convert to tonnes.

Intensity measurements are based on the individual property's Gross Internal Area (GIA), regardless of the specific area served by the supply. This is an accurate way of covering 95% of our consumption but will be less useful for our industrial vacant units; due to the comparatively low consumption and large floor areas typically associated with vacant industrial units. We are continually improving the reporting process so that we can produce increasingly useful normalisation and intensity metrics.

We have continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using our vehicle expenses reports and the vehicle emission factors from the UK Government GHG Conversion Factors for Company Reporting 2017. We have included occupier and own premises consumption within the Scope 3 emissions, using emission factors from UK Government's GHG Conversion Factors for Company Reporting 2020. Year-on-year, we will continue to update previous reported figures if applicable to remove estimates and ensure actual data is captured and reported.

		2021		2020		2019	
Emission source	GHG Scope	**Absolute GHG emissions (tCO_2e)**	**GHG intensity (tCO_2e/m^2)**	Absolute GHG emissions (tCO_2e)	GHG intensity (tCO_2e/m^2)	Absolute GHG emissions (tCO_2e)	GHG intensity (tCO_2e/m^2)
Combustion of fuel and operation of facilities	1	**799**	**0.004**	1,166	0.005	1,242	0.006
Electricity, heat, steam and cooling purchased for own use	2	**1,479**	**0.007**	2,282	0.010	2,679	0.015
Total Scope 1 and 2		**2,278**	**0.011**	3,448	0.015	3,921	0.021
Business travel	3	**1**	**N/A**	4	N/A	8	N/A
Occupier data	3	**2,570**	**0.002**	3,672	0.004	5,425	0.003
Office premises	3	**13**	**N/A**	17	N/A	10	N/A
Landlord water and treatment	3	**28**	**0.000**	53	0.001	55	0.001
Landlord waste	3	**7**	**0.000**	13	0.000	26	0.000
Total Scope 3		**2,619**	**0.002**	3,759	0.005	5,524	0.004
Total all Scopes		**4,897**	**0.013**	7,207	0.020	9,445	0.025

Sustainable buildings

We are committed to monitoring and enhancing the environmental performance of our buildings and aim to ensure refurbishments are carried out to the highest sustainability standards. As we look to develop our pathway to net zero carbon over the course of next year, we will be further establishing the requirements at a portfolio level to enhance the risk and resilience of our buildings.

What we have done this year

- Improved 20 EPC ratings
- Developed refurbishment checklist
- Provided Covid-19 compliant guidance for office re-occupation
- Created a new Health and Safety Committee
- Increased number of green leases by 75%

What we will do next year

- Further improve the portfolio EPC ratings
- Maintain high level of health and safety compliance
- Consider further integration of wellbeing initiatives for our occupiers within our refurbishment checklist

EPC management

Over the year we have reassessed 23 EPCs. The average newly assessed EPC rating improved to a C (reflecting an average score of 64), from the previous average rating of D (reflecting an average score of 90). Overall we have 387 EPC units across the portfolio, of which 92% are rated A-D. We have one unit with an F rated EPC where we are liaising with the occupier to undertake the necessary works to improve the rating. We continue to use lease events, common area works and EPC renewals to implement improvement works with the overall aim of continually improving our EPC score and ensuring compliance with MEES.

Refurbishment checklist

We have, in partnership with our building advisers, implemented an ESG-focused refurbishment checklist. This provides a set of guidelines to ensure our refurbishment process and refurbished buildings meet the appropriate environmental, social and governance standards based on the scope and type of refurbishment works being undertaken.

Health and safety

Our health and safety record remained strong over the year with no reported accidents or health and safety related incidents. Despite the restrictions caused by the pandemic we were 99% compliant in critical and secondary documentation.

In order to continue maintaining these high standards, we have created a new Health and Safety Committee to ensure that compliance and performance is measured appropriately for all our stakeholders; our employees, occupiers, contractors and other visitors to our buildings.

We provided Covid-19 safe plans complying with the relevant health and safety regulations and guidance for all of our multi-let offices which ensured they remained safely open throughout the pandemic.

Green leases

We have continued to incorporate sustainability clauses into our leases during the year.

We have identified three levels of green lease clauses - basic, intermediate and leader.

At the start of this financial year we had 60 green leases in place. By 31 March 2021 this had risen to 105, so an increase of 75% over the year. Of this total, nearly half are at the highest leader level.

3 1 2
See how this aligns with our strategic pillars on page **20–21**

Our employees

We have a strong and open company culture with shared values co-created by our employees. We value the contributions made by the whole team and aim to nurture a positive working environment.

What we have done this year

- Carried out a further employee survey
- Established regular virtual team meetings to maintain morale during lockdowns
- Held virtual meetings between the team and Non-Executive Directors
- Held a socially distanced team offsite when restrictions allowed
- Moved offices, upgraded workplace amenities and IT

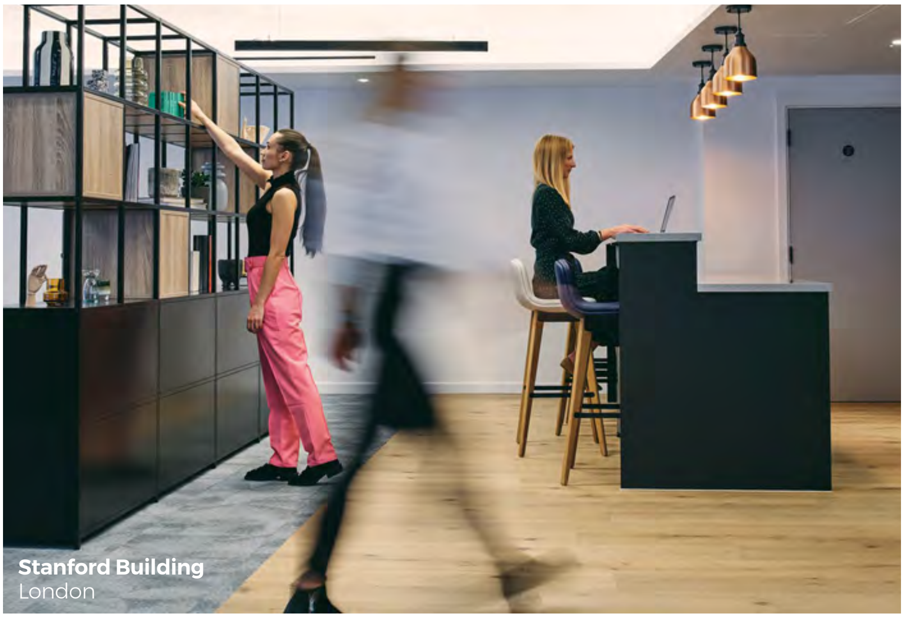
What we will do next year

- Return to the office with a flexible working model
- Continue to build on the employee engagement survey to identify areas important to the team
- Focus on upskilling the team on sustainability

Employee engagement

This year we again carried out an employee survey, which focused on the issues arising from remote working. At the start of the first lockdown in March 2020 we introduced daily virtual team meetings, so that we were able to maintain communication across the whole team. The feedback from the survey was positive and that this contact was appreciated by the team and helped to maintain morale throughout the periods of lockdown.

When restrictions permitted, we held a socially distanced team offsite. This included relevant training sessions with an external speaker.



Stanford Building
London

Office move

One of the key themes from last year's employee survey and forum was the quality of office accommodation. By moving office we now benefit from excellent office space and amenities. As part of the move we upgraded our IT infrastructure and connectivity.

Diversity and inclusion

We value the contributions made by all of our employees and believe that a diverse workforce is key to maximising business effectiveness. We aim to select, recruit, develop and promote the very best people and are committed to creating a workplace where everyone is treated with dignity and respect, and where individual difference is valued.

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge within the Board and the Picton team. At the date of this Report, the number of men and women employed by the Group were:

	Men	Women
Board	4	2
Rest of team	4	4
Total	**8**	**6**

Training and development

We want to encourage our employees to realise their full potential by giving them access to development and training opportunities.

This year the amount of training carried out by employees was 1.6% on a time spent basis, up from 1.5% last year.

Employee development is based on the following key principles:

- Development should be continuous; employees should always be actively seeking to improve performance
- Regular investment of time in learning is seen as an essential part of working life
- Development needs are met by a mix of activities, which include internal and external training courses, structured 'on the job' experience and through interaction with professional colleagues

All of the Group's employees have a formal performance appraisal on an annual basis, together with a mid-year review of their progress against objectives set at the start of the year.

Stakeholder engagement

We have in place a framework for conducting business in a way that makes a positive contribution to society while minimising the impact on people and the environment. We are committed to engaging with our occupiers, shareholders, suppliers and wider community and the Board acts to promote the long-term success of the business for the benefit of all our stakeholders.

What we have done this year

- Maintained regular communication with shareholders, including virtual meetings
- Engaged with our occupiers throughout the year to help navigate the pandemic
- Developed our occupier engagement programme to improve occupier satisfaction
- Carried out occupier satisfaction survey
- Marked fifteenth anniversary by holding community initiative offering £15,000 to local charities
- Made further charitable donations of £14,000

What we will do next year

- Roll out occupier engagement plan
- Act on the results of our latest occupier survey
- Use our influence to drive environmental performance and increase adoption of green lease clauses

Our occupiers

We are always seeking to improve our occupiers' experience, which is why we created the Picton Promise: five key commitments including Action, Community, Technology, Support and Sustainability. Each commitment underpins every aspect of the occupier experience we provide.

We have continued our occupier engagement programme during the pandemic, maintaining regular contact and communication with our occupiers. We have held regular virtual building management meetings with our office occupiers and ensured buildings were accessible and Covid-compliant.

This year we will aim to further develop our engagement with occupiers and act upon the results of the recent occupier survey that we have carried out. We are also preparing building specific re-occupation plans to assist our occupiers when they are ready to return.

Our suppliers

We have in place a framework for conducting business across the Group, in a way that makes a positive contribution to society while minimising any negative impact on people and the environment. We expect high standards within our business and from our suppliers.

Last year we prepared our first Supplier Code of Conduct. The Code is designed to promote safe and fair working conditions and the responsible management of social, ethical and environmental issues in our supply chain. Over the last year we have been rolling this out to all of our principal suppliers, and to new suppliers as appropriate.

Our communities

We are committed to supporting the local communities where we own buildings. We aim to continually improve the impact of our buildings within local communities through not only providing space to local businesses, but also through the improvement of local areas and minimising the environmental impact of buildings themselves. We have this year developed our community and social value, and charitable giving policies to provide greater focus on our initiatives.

As part of our fifteenth year anniversary celebrations, we created a funding award of £15,000 to support not-for-profit community organisations where we own buildings. We invited applications from organisations committed to creating, delivering or expanding projects which improve community engagement.

Parkbury Industrial Estate
Radlett

We received many applications nominated by our occupiers and selected five worthwhile projects to each receive an award. These were:

- The Link Visiting Scheme, Wokingham
- Capel Community Trust, Capel
- Your Sanctuary, Surrey
- I CAN, London
- Strathcarron Hospice, central Scotland

We continue to support a variety of charities, and this year made donations of over £14,000. With the impact of the pandemic curtailing many charities' fundraising activities we felt it was appropriate to increase our support. The principal charities that we have supported this year are The Funding Network, Coram and LandAid.

We have maintained our occupier matched giving policy, and also offer matched giving for employees who are raising money for charity.

Understanding our stakeholders

We believe that taking into account the views of our key stakeholders is critical to the long-term success of the business. We engage with all of our stakeholders to understand what is important to them. The following table sets out our key stakeholders and how we effectively engage with them.

Our section 172 statement for the year ended 31 March 2021 is on pages 62 to 63 and sets out how some of the key decisions made by the Board during the year were guided by stakeholder engagement.

Stakeholder	What is important to our stakeholders	How we engage	What we have done this year
Our people	– Fair and equal treatment – Career progression – Fair pay and conditions – Good work/life balance – Positive work culture and values	We have a small team and engage regularly with them. We have an appraisal process where each member of the team will discuss their performance and objectives with their line manager twice a year. We carry out an annual employee survey, and the results of this are discussed at a meeting held with our designated Non-Executive Director for employee engagement, Maria Bentley.	We have maintained contact with the team by holding regular virtual meetings and have held a socially distanced team offsite when restrictions allowed. The results of the employee survey showed the team remained positive and morale was good.
Local communities and charities	– Local employment opportunities – Positive contribution to local economy – Safe and clean environment	We are committed to improving local communities where we own buildings, whether providing space to local businesses, improvement of local areas or minimising the environmental impact of buildings themselves. We engage through our charity and community initiatives and through our occupier engagement programme.	This year, to mark our fifteenth anniversary, we created a funding award of £15,000 to support local community organisations or charities where we own buildings. We received many applications and selected five worthwhile projects to receive an award.
Our occupiers	– Space suited to their needs – Fair lease terms – Well-managed, efficiently run and sustainable buildings – Good relationships	One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. Our asset managers maintain regular contact with occupiers and discuss with them any issues regarding the buildings and any future plans we have. Our Head of Occupier Services has developed an occupier engagement programme, and will attend occupier meetings and other events. We send out an occupier newsletter regularly with relevant and helpful information.	Our engagement with occupiers has been very important this year. We have proactively liaised with many occupiers over the course of the year, trying to find mutually beneficial solutions to the issues caused by the pandemic.

Stakeholder	What is important to our stakeholders	How we engage	What we have done this year
Our investors	– Clear strategy – Regular dividends – Financial performance – Clear and transparent reporting	We value the views of all our shareholders and senior management hold regular meetings to update shareholders on progress and activity. We issue regular investor updates with key financial highlights and updates on the portfolio. Our website has been enhanced and provides investors with up-to-date information about the Group. We encourage shareholders, in normal circumstances, to attend our Annual General Meeting where they are able to ask questions of the Directors directly.	At the start of this financial year we took the difficult decision to reduce the level of dividend, taking a conservative approach to the potential impact of the pandemic on the business. As the year has progressed and our rent collection has been maintained at a robust level we have increased the dividend on two occasions, albeit not yet back to the pre-pandemic level. After the initial fall, this has helped our share price to rise by 37% over the second half of the year.
Suppliers	– Prompt payment – Fair terms of business – Long-term relationships	We seek to maintain productive and long-term relationships with our business partners. We have in place a framework for conducting business across the Group in a way that makes a positive contribution to society, while minimising any negative impact on people and the environment.	We have continued to ensure that our suppliers are paid promptly and within payment terms.

Section 172

As the Company is registered in Guernsey, the UK Companies Act 2006 has no legal effect. However, in accordance with the UK Corporate Governance Code 2018 and as a matter of good governance, the Directors, individually and collectively as the Board, act as they consider most likely to promote the success of the Company for the benefit of our shareholders as a whole.

The Directors have regard to:

The likely long-term consequences of decisions	Read more on pages **70-73**
The interests of its employees	Read more on page **58**
The Company's relationships with its suppliers, customers and others	Read more on pages **59-61**
The impact of the Company's operations on the community and the environment	Read more on pages **54-61**
The Company's reputation and maintaining a reputation for high standards of business conduct	Read more on pages **64-73**
The need to act fairly between shareholders	Read more on pages **64-73**

Consideration of these factors and other relevant matters is embedded into all Board decision making, strategy development and risk assessment throughout the year. We consider our key stakeholders to be our occupiers, our people, our communities, our suppliers and our shareholders. Working closely with our stakeholders falls within one of our three strategic pillars set out within our business model and strategy. The primary ways in which the Board engages directly or delegates responsibility for engagement to management is set out below.

Board engagement with stakeholders

Our shareholders

As owners of the business we rely on the support of our shareholders and their views are important to us. The long-term success of the business will deliver value for shareholders. Senior management hold regular meetings with shareholders and feedback from these meetings is reported back to the Board. This feedback may be on operational matters, financing strategy or dividend policy, as examples. This year, our new Chair, Lena Wilson, held virtual meetings with some of our larger shareholders to understand their views on relevant issues. The Directors normally attend the Annual General Meeting to meet with shareholders and to answer any questions they may have.

Our occupiers

One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. The Board has delegated responsibility for engaging with occupiers to the asset management team, who have ongoing communication with occupiers, and use this information when making proposals to the Board on investment transactions, such as refurbishment projects or leasing events.

Our people

Our people are key to our success and we want them to succeed both as individuals and as a team. One of our Non-Executive Directors, Maria Bentley, has responsibility for employee engagement. This year we again undertook an employee survey. The results of this survey were discussed at a virtual meeting attended by Maria, Richard Jones and the employees, without the Executive Directors present. The views of the employees on a number of issues, particularly the impact of remote working, were reported directly back to the rest of the Board.

Local communities and Environment

We are committed to improving the impact of our buildings on local communities, whether providing space to local businesses, improving local areas or minimising the environmental impact of buildings themselves. The Board has established a Responsibility Committee, which is chaired by one of the Executive Directors, to deal with sustainability policy and initiatives on its behalf. The Board reviews progress on sustainability matters and has attended relevant workshops during the year.

Suppliers

We have in place a framework for conducting business across the Group in a way that makes a positive contribution to society, while minimising any negative impact on people and the environment. The Board has agreed the overall business framework and delegated its implementation to the management team.

Considering stakeholders in key Board decision making

Set out below are examples of important decisions taken during the year. These are decisions that are material to the Group but also significant to any of our key stakeholders. In its decision making the Board considered the feedback from stakeholder engagement as well as the need to act fairly between shareholders and to maintain high standards of business conduct.

	Actions
Support given to occupiers during the pandemic	The Board recognised that some occupiers were experiencing financial difficulties as a result of the restrictions imposed during the pandemic, and consequently their ability to meet their rent commitments. Requests from occupiers were considered on a case-by-case basis, with the aim of providing assistance while minimising the impact to capital values and cash flow.
Review and increase of dividend	The Board is aware of the value of regular dividend payments to shareholders and reviews the level of dividend each quarter. At the start of the pandemic the Board took the difficult but prudent decision to reduce the level of dividend. Subsequently, the Board approved two increases in dividend, restoring much of the original reduction, as soon as it was considered appropriate.
Development of net zero carbon pathway	The Board is aware of the increasing risk of climate change to the environment and over the last year we have developed our sustainability action plan. The Board has decided that the next step is to set out our pathway to becoming a net zero carbon business, which will benefit all of our stakeholders.
Office move	During the year the Board agreed that the business should move and upgrade its premises. We have taken a floor in one of our own buildings, which was previously retail space, and converted to office. This has removed the external lease costs associated with the former office and had the benefit of reducing the Group's retail exposure. One of the issues raised in the employee survey in the previous year was the quality of occupied space, and the move to newly refurbished offices was positively received by the team.
Consultation on Remuneration Policy	As described more fully in the Remuneration Report, we have carried out a consultation exercise with our largest shareholders regarding changes to our Directors' Remuneration Policy, and this will be put to shareholders at this year's Annual General Meeting.

Introduction to the Corporate Governance Report

Lena Wilson CBE
Chair

I am pleased to introduce our 2021 Corporate Governance Report.

Dear Shareholder

This year the Board and leadership team have had to adapt their way of working to comply with the restrictions imposed as a result of the Covid-19 pandemic. All of the regular Board and Committee meetings have been held virtually for the whole year, and our Annual General Meeting was unfortunately a closed event for shareholders. I very much hope that we will soon be able to meet again in person and return to our previous routines.

Visit our website
www.picton.co.uk

This year we have completed the succession process and made some changes to the Board.

Lena Wilson CBE
Chair

Board composition

This year we have completed the succession process that has been a main focus of our governance activities since the Company became resident and managed in the UK in 2018.

My predecessor, Nick Thompson, stepped down from the Board at the end of January this year. I would like to extend my thanks to him for his help in making my transition to Chair so smooth. On behalf of all my new colleagues at Picton I would like to thank him for all his hard work and contribution to Picton since he joined in 2005.

We have also welcomed Richard Jones to the Board, who joined on 1 September 2020 and has replaced Roger Lewis. Roger served on the Board from 2010 and again I would like to thank him for his contribution to the business over many years. Richard has also taken over as Chair of the Property Valuation Committee, bringing his wealth of previous property experience to that role.

The selection process for the Board appointments that have taken place this year is set out in the Nomination Committee report.

Governance

Our Statement of Compliance with the Corporate Governance Code is set out within the Directors' Report. I am pleased to report that we have fully complied with the Code, except for the tenure of two long-serving Directors, and this exception has now been resolved.

The following reports describe the activities of each of the Board Committees in more detail, and I believe that our current Committee structure remains appropriate for the good governance of the Company.

Remuneration

Our current Directors' Remuneration Policy was put in place in 2018 and so is due to be reviewed this year to ensure it remains appropriate and in accordance with best practice. We have carried out a consultation exercise with our largest shareholders in respect of potential changes to the policy, and this is described in more detail in the Remuneration Report.

Purpose

In 2019 we redefined our purpose to include 'being a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders'. The events of the last year have very much emphasised the importance of this statement, and how our engagement with occupiers has not only helped them but also has been to the long-term benefit of Picton, and all of its stakeholders.

Our people and culture

We have maintained our programme of employee engagement this year, despite the difficulties of working remotely. Maria Bentley is our Non-Executive Director with responsibility for employee engagement. This year we have again carried out an employee survey, and I am pleased that the results were equally as positive as last year. The survey was followed up with a virtual meeting with the team and both Maria and Richard, but not the Executive Directors. The issues associated with home working were the main focus of discussion, and it was good to hear that the team had taken this in their stride, and that morale has remained high.

Our stakeholders

Our occupier focused approach is a key part of our business culture. This year our engagement with occupiers has been critical to the business, helping us to give the right support to our occupiers while maintaining income and values.

2020 marked the fifteenth anniversary of the launch of the Company. In order to mark this anniversary we created a funding award of £15,000 to support local community organisations or charities where we own buildings. We received many applications and selected five worthwhile projects to receive an award. With charity activities and volunteering opportunities severely curtailed this year I am very pleased that we were able to provide support in this way.

Reporting

This year we have decided to use the authority in our Articles to reduce the number of printed versions of our Annual Report and instead for shareholders to view the Report online at our website. As well as the environmental benefit of reducing the amount of paper used in issuing the Report to all shareholders, there will also be the financial benefit to the Company from reducing costs. Shareholders who still wish to receive a hard copy will be able to do so, but I hope that most will take up the electronic option.

We aim to always produce reports that are transparent and informative, and I am pleased to report that last year's Annual Report and Sustainability Report both received an EPRA Gold award.

Board evaluation

This year the Board carried out an internal evaluation, the results of which are discussed in the following Corporate Governance Report. The conclusions reached from the evaluation will be followed up over the forthcoming year. The next Board evaluation will be carried out externally, in accordance with our policy of undertaking an external evaluation every three years.

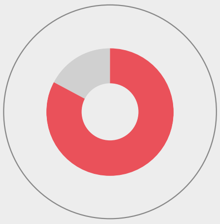
Lena Wilson CBE
Chair
26 May 2021

We have the relevant skills and experience for future growth

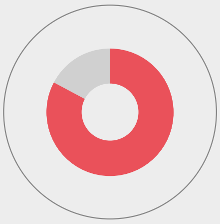
The Board is responsible for the long-term success of the business, providing leadership and direction with due regard and consideration to all stakeholders in the business.

Diversity of experience

67%
Real estate



83%
Strategy and governance



83%
Corporate finance and public companies

33%
Finance and accounting

Lena Wilson CBE
Chair
Chair of the Nomination Committee

Appointed to the Board January 2021

Responsible for ensuring the Board is effective in setting and implementing the Company's direction and strategy including reviewing and evaluating the performance of the CEO.

Key strengths and skills
- Over a decade of Non-Executive, Senior Independent Director and Chair experience including FTSE 100 companies across the financial and industrial sectors
- Multi-disciplinary global career across private and public sector
- Experienced CEO leading organisations with an international footprint

Principal external commitments
- Chair of Chiene + Tait LLP
- Non-Executive Director NatWest Group plc
- Non-Executive Director and Senior Independent Director Argentex Group PLC
- Chair of AGS Group

Previous experience and appointments
- Chief Executive of Scottish Enterprise
- Senior Investment Advisor at the World Bank
- Non-Executive Director Intertek PLC
- Non-Executive Director Scottish Power Renewables

Richard Jones
Chair of the Property Valuation Committee

Appointed to the Board September 2020

Responsible for overseeing the review of the quarterly valuation process and making recommendations to the Board as appropriate.

Key strengths and skills
- Significant real estate investment experience
- Broad experience of property asset management
- Extensive experience of property valuation

Principal external commitments
- Investment Committee of Henley Secure Income Property Unit Trust
- Transport for London's Commercial Property Advisory Group
- Special Advisor to Clearbell UK Strategic Trust

Previous experience and appointments
- UK Managing Director on Aviva's Investors' Global Real Estate Board
- Special Director of Ribston UK Industrial Property Unit Trust
- Non-Executive Director of Royal Brompton and Harefield Hospital NHS Foundation Trust

Mark Batten
Chair of the Audit and Risk Committee
Senior Independent Director

Appointed to the Board October 2017

Responsible for financial reporting and accounting policies, audit strategy and the evaluation of internal controls and risk management systems.

Key strengths and skills
- Chartered Accountant and restructuring specialist
- Extensive experience in banking, insurance, real estate, debt structuring and restructuring
- Broad real estate knowledge, covering most sub-sectors

Principal external commitments
- Chair, Assured Guaranty UK
- Non-Executive Director and Chair of the Audit and Risk Committee – Reliance National Insurance Company (Europe)
- Non-Executive adviser and Chair of the Finance Committee, Royal Brompton and Harefield NHS Clinical Group
- Chair, Governing Body, Westminster School

Previous experience and appointments
- Partner, PricewaterhouseCoopers LLP (restructuring and corporate valuation practices)
- Non-Executive Director, L&F Indemnity
- Senior adviser to UK Government Investments

Maria Bentley
Chair of the Remuneration Committee

Appointed to the Board October 2018

Responsible for leading on the recommendation of remuneration policies and levels, for effective succession planning and employee engagement.

Key strengths and skills
- Business head leading change across global teams
- Expertise in human resources
- Extensive experience in financial services

Principal external commitments
- Non-Executive Director of BlueBay Asset Management LLP and Chair of the Remuneration Committee
- Non-Executive Director of Daiwa Capital Markets Europe Limited

Previous experience and appointments
- Senior Managing Director & Global Head of HR, Wholesale & Head of HR EMEA at Nomura International plc
- Group Managing Director & Global Head of HR, UBS Investment Bank
- Managing Director, Global Head of HR for Equities and Fixed Income, Goldman Sachs International

Michael Morris
Chief Executive

Appointed to the Board October 2015

Responsible for overall strategic direction and execution of the Group's business model.

Key strengths and skills
- Successful track record of driving investment strategy and delivering results for shareholders
- Proven leadership skills
- In-depth understanding of real estate equity capital markets

Principal external commitments
None

Previous experience and appointments
- 25 years' wide-ranging commercial real estate market experience
- Senior Director and Fund Manager at ING Real Estate Investment Management

Andrew Dewhirst
Finance Director

Appointed to the Board October 2018

Responsible for strategic financial planning and reporting for the Group.

Key strengths and skills
- Chartered accountant with extensive experience in financial planning and reporting
- In-depth knowledge of financial services, capital markets and real estate funds
- Expertise in debt and equity financing

Principal external commitments
None

Previous experience and appointments
- Director of Client Accounting at ING Real Estate Investment Management
- Director at Hermes Administration Services

Changes to the Board

Appointed to the Board

Lena Wilson CBE
Chair
Chair of the Nomination Committee
1 January 2021

Richard Jones
Chair of the Property Valuation Committee
1 September 2020

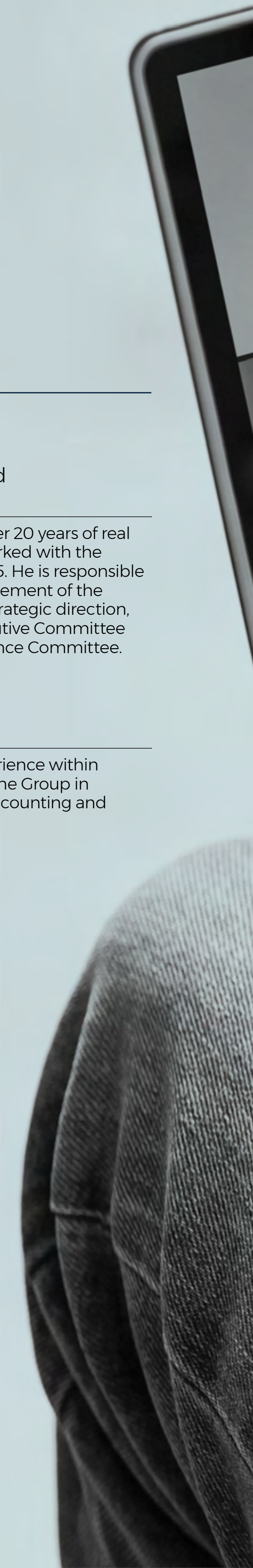
Retired from the Board

Nicholas Thompson
Chair
31 January 2021

Roger Lewis
Chair of the Property Valuation Committee
30 September 2020

Nicholas Wiles
Non-Executive Director
20 May 2020

With extensive experience across real estate management and financial services, our team have an in-depth knowledge and understanding of the UK commercial property market.



Meet our team

01 Melissa Ricardo
Office Manager

Melissa joined in 2017 and is responsible for the day-to-day management of the office and oversees the administrative aspects of the Company.

02 James Forman
Director of Accounting

James is a Certified Accountant and has worked with the Group since its launch in 2005 and has over 20 years experience in the real estate sector. He is responsible for all the accounting and financial reporting for the Group and is a member of the Transaction and Finance Committee.

03 Mark Alder
Head of Occupier Services

Mark is a Chartered Surveyor with over 35 years of property management experience. He is responsible for delivering effective property management and strengthening our relationship with our occupiers.

04 Michael Morris
Chief Executive

Michael has over 25 years experience within the UK commercial property sector and is responsible for the strategic direction and effective execution of the Group's business model.

05 Louisa McAleenan
Research Analyst

Louisa has over 14 years experience of real estate research and is responsible for all aspects of research and analysis, contributing to the direction of the Group's investment strategy and is a member of the Responsibility Committee.

06 Tim Hamlin
Director of Asset Management

Tim is a Chartered Surveyor with over 13 years of real estate experience and is responsible for creating and implementing asset level business plans in line with the portfolio's strategic direction and is a member of the Responsibility Committee.

07 Andrew Dewhirst
Finance Director

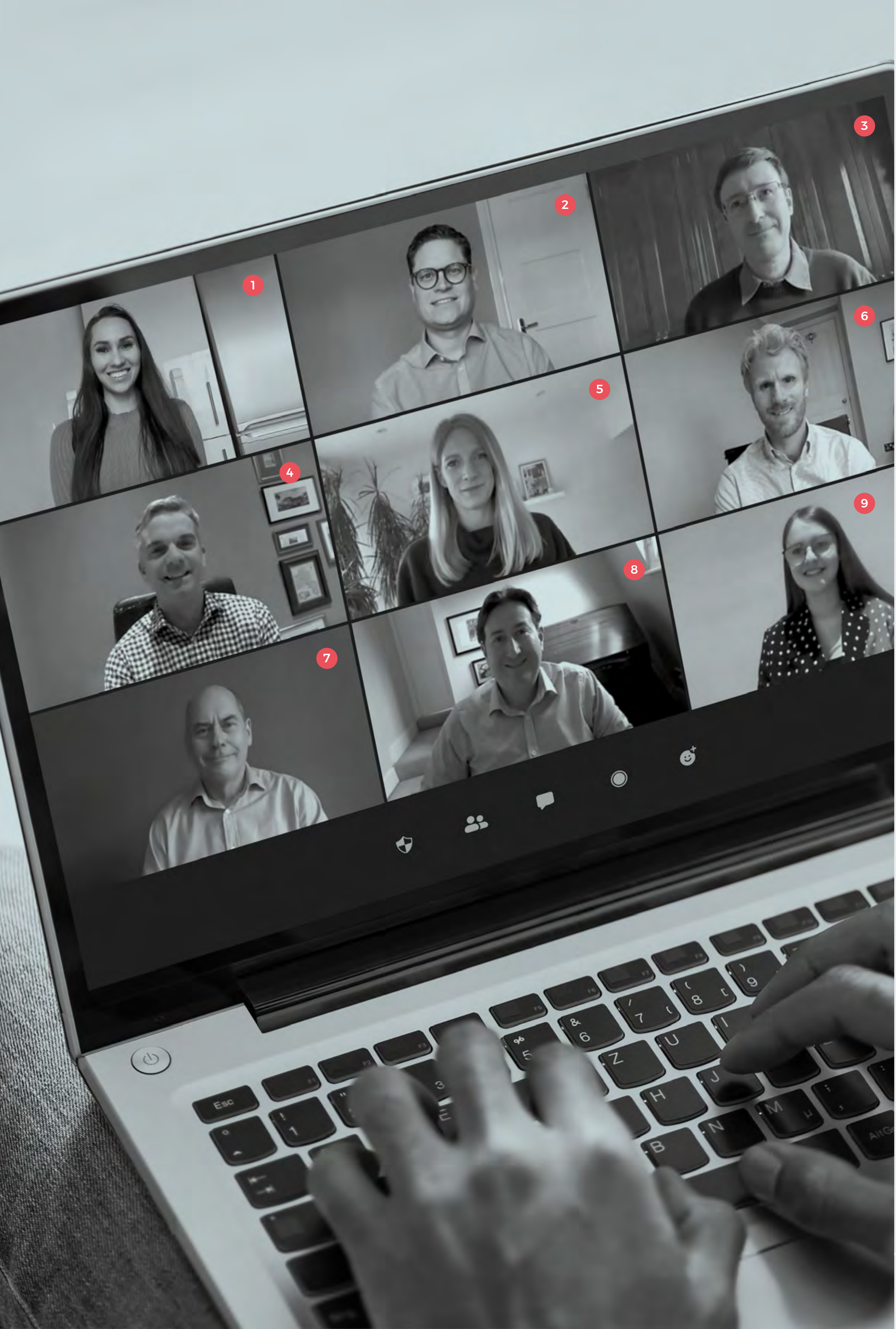
Responsible for the financial strategy and reporting for the Group, Andrew has over 30 years' experience within the financial services and real estate sectors.

08 Jay Cable
Senior Director and Head of Asset Management

A Chartered Surveyor with over 20 years of real estate experience, Jay has worked with the Group since its launch in 2005. He is responsible for the proactive asset management of the portfolio and overseeing its strategic direction, and is a member of the Executive Committee and the Transaction and Finance Committee.

09 Lucy Stearman
Assistant Accountant

Lucy has over nine years experience within financial services and joined the Group in April 2019 to assist with the accounting and financial reporting.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Leadership structure

The Board
Chair: Lena Wilson CBE
Comprises: 2 Executive Directors and 4 Non-Executive Directors
Responsibilities:
- Direction and control of the business
- Overall long-term success
- Sets and implements strategy
- Establishes the culture and values of the business
- Promotes wider stakeholder relationships

Board Committees

Audit and Risk
Chair:
Mark Batten
Comprises:
3 Non-Executive Directors
Responsibilities:
- Oversees financial reporting
- Monitors risk management
- Reviews system of internal controls
- Evaluates external auditor

Remuneration
Chair:
Maria Bentley
Comprises:
4 Non-Executive Directors
Responsibilities:
- Determines remuneration policy
- Sets remuneration of Executive Directors
- Reviews remuneration of whole workforce
- Approves bonus and LTIP awards

Property Valuation
Chair:
Richard Jones
Comprises:
4 Non-Executive Directors
Responsibilities:
- Oversees the independent valuation process
- Recommends the appointment and remuneration of the valuer
- Ensures compliance with applicable standards

Nomination
Chair:
Lena Wilson CBE
Comprises:
4 Non-Executive Directors
Responsibilities:
- Recommends Board appointments
- Considers succession planning
- Board evaluation
- Board composition and diversity

Management Committees

Executive Committee
Chair: Michael Morris
Comprises: 2 Executive Directors and 1 senior executive
Responsibilities:
- Implementation of strategy
- Manages operations
- Day-to-day management of the business
- Employee remuneration and development

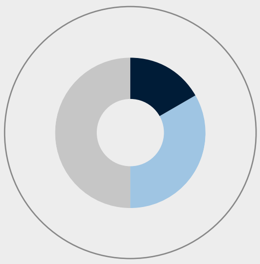
Transaction and Finance
Chair: Michael Morris
Comprises: 2 Executive Directors and senior management
Responsibilities:
- Reviews and recommends portfolio transactions
- Monitors portfolio costs
- Reviews compliance with lending covenants

Responsibility
Chair: Andrew Dewhirst
Comprises: 1 Executive Director and senior management
Responsibilities:
- Determines sustainability policy and strategy
- Monitors compliance with relevant standards and legislation
- Oversees Health and Safety Committee
- Approves ESG reporting
- Employee wellbeing

Division of responsibilities

Role	Responsibilities
Chair Lena Wilson CBE	– Leads the Board – Responsible for overall Board effectiveness – Promotes Company culture and values – Sets the agenda and tone of Board discussions – Ensures that all Directors receive full and timely information to enable effective decision making – Promotes open debate at meetings – Ensures effective communication with stakeholders – Builds relationships between Executive and Non-Executive Directors
Chief Executive Michael Morris	– Develops and recommends strategy to the Board – Responsible for the implementation of strategy set by the Board – Manages the business on a day-to-day basis – Manages communication with shareholders and ensures that their views are represented to the Board
Senior Independent Director Mark Batten	– Leads the evaluation of the Chair – Available for communication with shareholders when other channels are not appropriate
Non-Executive Directors Mark Batten Maria Bentley Richard Jones	– Bring independent judgement and scrutiny to the decisions of the Board – Bring a range of skills and experience to the deliberations of the Board – Monitor business progress against agreed strategy – Review the risk management framework and the integrity of financial information – Determines the remuneration policy for the Group and approves performance targets in line with strategy
Executive Director Andrew Dewhirst	– Supports the Chief Executive in the formulation of strategy – Manages the financial operations of the Group – Develops and maintains the system of financial controls within the Group – Recommends the risk management framework to the Board

Composition of the Board



Function

	Number	%
Non-Executive Chair	1	17%
Executive Directors	2	33%
Independent Non-Executive Directors	3	50%

Diversity

	Number	%
Male	4	67%
Female	2	33%

Tenure

	Number	%
0 to 3 years	4	67%
3 to 6 years	2	33%

The role of the Board

The Board is responsible for the long-term success of the business. It provides leadership and direction, with due regard to the views of all of the stakeholders in the business. The Board operates in an open and transparent way, and seeks to engage with its shareholders, employees, occupiers and local communities.

The Board has full responsibility for the direction and control of the business, and sets and implements strategy, within a framework of strong internal controls and risk management. It establishes the culture and values of the Group.

The Board has a schedule of matters reserved for its attention. This includes all acquisitions and significant disposals, significant leasing transactions, dividend policy, gearing and major expenditure.

The Board has collectively a range of skills and experience that are complementary and relevant to the business. These are set out in the biographies of the individual Directors on pages 66 and 67.

Board meetings

The Board has a regular schedule of meetings. The Board has at least two meetings each quarter; the first of which focuses on operational matters, and the second covers strategic issues and longer-term planning. External advisers are invited to attend Board meetings on a regular basis. All meetings this year have been held remotely.

Board changes

On 1 September 2020 Richard Jones was appointed to the Board as a Non-Executive Director. Richard became Chair of the Property Valuation Committee on 1 October 2020, replacing Roger Lewis, who stepped down from the Board on 30 September 2020.

Lena Wilson was appointed to the Board on 1 January 2021, and took over as Chair of the Company on 1 February 2021. Nicholas Thompson, the previous Chair, retired from the Board on 31 January 2021.

Nicholas Wiles resigned from the Board on 20 May 2020.

Composition

The Board currently comprises the Chair, two Executive Directors and three independent Non-Executive Directors.

All of the Directors will stand for re-election at the forthcoming Annual General Meeting.

As at 31 March 2021 the Board comprised 50% independent Non-Executive Directors.

Board Committees

The Board has established four Committees: Audit and Risk, Remuneration, Property Valuation and Nomination. These are comprised entirely of Non-Executive Directors and operate within defined terms of reference. The terms of reference are available on the Company's website.

Attendance at Board and Committee meetings

	Date appointed	Board	Audit and Risk	Remuneration	Property Valuation	Nomination
Nicholas Thompson	15.09.2005	8/8	–	7/7	4/4	3/3
Lena Wilson	01.01.2021	2/2	–	2/2	1/1	–
Michael Morris	01.10.2015	9/9	–	–	–	–
Andrew Dewhirst	01.10.2018	9/9	–	–	–	–
Mark Batten	01.10.2017	9/9	3/3	8/8	4/4	3/3
Maria Bentley	01.10.2018	9/9	3/3	8/8	4/4	3/3
Roger Lewis	31.03.2010	5/5	1/1	3/3	2/2	2/3
Richard Jones	01.09.2020	5/5	2/2	5/5	2/2	0/1
Nicholas Wiles	01.01.2020	2/2	–	2/2	1/1	1/1
Total number of meetings		**9**	**3**	**8**	**4**	**3**

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above.

Non-Executive Directors

Excluding the Chair, the Board includes three independent Non-Executive Directors. The Non-Executive Directors bring a variety of skills and business experience to the Board. Their role is to bring independent judgement and scrutiny to the recommendations of the Executive Directors. Each of the Non-Executive Directors is considered to be independent in character and judgement.

Internal control and risk management

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage the achievement of business objectives, rather than eliminate the failure to achieve them and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. Such review procedures have been in place throughout the full financial year, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

This process involves a review by the Board of the control environment within the Group's service providers to ensure that the Group's requirements are met.

The Group does not have an internal audit function. Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Company's Administrator's internal control systems.

These systems are designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The effectiveness of the internal control systems is reviewed annually by the Audit and Risk Committee and the Board. The Audit and Risk Committee has a discussion annually with the auditor to ensure that there are no issues of concern in relation to the audit opinion on the financial statements and representatives of senior management are excluded from that discussion.

Shareholder engagement

In conjunction with the Board, the Administrator keeps under review the register of members of the Company. All shareholders are encouraged to participate in the Company's Annual General Meeting.

All Directors normally attend the Annual General Meeting, at which shareholders have the opportunity to ask questions and discuss matters with the Directors and senior management. Investors are able to direct any questions for the Board via the Secretary.

The Chair has met with a number of larger shareholders as part of her onboarding process and intends to join analyst meetings where possible. Further meetings with investors will take place if requested. The outcome of investor meetings is communicated to the rest of the Board.

Board evaluation

The Board has a policy of undertaking an external evaluation every three years, with internal evaluations in the other years. This year an internal review was carried out by the Directors, based on a questionnaire prepared by the Company's Administrator. The anonymised results of the evaluation were considered by the Board at its meeting in December 2020. The main conclusions of the evaluation were as follows:

- The frequency of meetings will be reviewed
- There will be an increased emphasis on diversity of external input to meetings
- More meetings will be held in person when conditions allow
- The content of regular reports will be reviewed
- The Audit and Risk Committee will consider the Group's risk appetite, including proposed sector and geographic weightings
- Sustainability issues and setting a pathway to net zero carbon will be a focus for the coming year

Conflicts of interest

Directors are required to notify the Company of any potential conflicts of interest that they may have. Any conflicts are recorded and reviewed by the Board at each meeting. No conflicts have been recorded during the year.

Employee engagement

We recognise that our employees are integral to the business, and we aim to provide a working environment where they are able to reach their potential. Maria Bentley is the designated Non-Executive Director with responsibility for employee engagement. We have again carried out an annual employee survey, covering all of the Picton team with the exception of the Directors. The results of the survey were then discussed at an informal meeting attended by Maria and the employees. The feedback from the team was positive, particularly in the light of the challenges caused by the Covid-19 pandemic, including remote working.

Nomination Committee

Lena Wilson CBE
Chair of the Nomination Committee

The members of the Nomination Committee are Lena Wilson, Richard Jones, Mark Batten and Maria Bentley.

Lena Wilson is the Chair of the Committee, having taken over this role on 31 January 2021. Maria Bentley was Chair of the Committee from 20 May 2020 until 31 January 2021, while the search and appointment of a new Company Chair took place.

This Report covers the appointment and induction of Lena Wilson as a Non-Executive Director and Chair designate, and those sections of the Report were prepared by the previous Chair.

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership. In making any new appointment the Board will consider a number of factors, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members.

The Committee ensures that the appointment process is formal, rigorous and transparent.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Review and make recommendations regarding the size and composition of the Board;
- Consider and make recommendations regarding succession planning for the Board and senior management;
- Identify and nominate candidates to fill Board vacancies as they arise;
- Review the results of the Board evaluation relating to composition;
- Review the time requirements for Directors; and
- Recommend the membership of Board Committees.

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With the appointments made this year, the current succession plan has been completed.

Lena Wilson CBE
Chair of the Nomination Committee

Activity

The Committee met three times during the year ended 31 March 2021 and considered the following matters:

- The selection process for the appointment of a new Director to replace Roger Lewis;
- The selection process for the appointment of a new Company Chair to replace Nicholas Thompson;
- The appointment of external consultants to compile lists of candidates;
- The formation of a working group of the Committee to manage the recruitment process and work with the consultants; and
- Consideration of the final shortlists of candidates for both roles and final recommendations.

Appointments to the Board

The Committee's main focus during the year was on the selection and appointment of two new Non-Executive Directors, one as Company Chair designate to replace Nicholas Thompson, and the other to replace Roger Lewis, who had served on the Board since 2010.

For both roles independent executive search consultants JCA Group were appointed. The Committee provided JCA with a detailed description of the roles and the capabilities required for them. The consultants prepared lists of potential candidates, ensuring there was sufficient diversity, which were assessed by the Committee for suitability to the roles. Short lists for each of the roles were drawn up and the candidates were interviewed initially by the Chair of the Committee and subsequently by two other Directors. The whole Committee then considered the feedback from this process before making recommendations to the Board.

The Board approved the appointments of Richard Jones from 1 September 2020 and of Lena Wilson from 1 January 2021.

Board composition and succession

The Board comprises the Chair, two Executive Directors and three independent Non-Executive Directors.

With the appointments made this year the current succession plan has been completed.

Tenure and re-election

The tenure of Non-Executive Directors, including the Chair, is limited to nine years in accordance with the Corporate Governance Code.

The provisions of the Corporate Governance Code recommend that all Directors be subject to annual re-election at the Annual General Meeting. The Board will follow this recommendation at this year's Annual General Meeting.

Diversity policy

The Company is committed to treating all employees equally and considers all aspects of diversity, including gender, when considering recruitment at any level of the business. All candidates are considered on merit but having regard to the right blend of skills, experience and knowledge at Board and Executive level, and amongst our employees generally.

Induction

The induction process for both Richard Jones and Lena Wilson was led by the Chair and supported by the other Directors. The process commenced shortly after each appointment was confirmed and comprised a number of virtual one-to-one meetings with the other Non-Executive Directors, the Chief Executive and the Finance Director. There were also virtual meetings held with the rest of the Picton team. Additional reading and reference material was provided that was specific to the Group and its business.

Lena Wilson CBE
Chair of the Nomination Committee
26 May 2021

Audit and Risk Committee

Mark Batten
Chair of the Audit and Risk Committee

The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Richard Jones and Maria Bentley.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Financial reporting, including significant accounting judgements and accounting policies;
- Development of a comprehensive Risk Management Policy for the adoption by the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Ensuring that key risks are being effectively identified, measured, managed, mitigated and reported;
- Internal controls, controls testing and risk management systems;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit; and
- Reporting responsibilities.

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The Committee has developed a comprehensive Risk Management Policy which has been adopted by the Group.

Mark Batten

Chair of the Audit and Risk Committee

Meetings of the Audit and Risk Committee are attended by the Group's Finance Director and other members of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.

Activity

The Audit and Risk Committee met three times during the year ended 31 March 2021 and considered the following matters:

- External audit strategy and plan;
- Audit and accounting issues of significance;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Review of the Group's Risk Management Policy and appetite
- Review of the risk matrix and mitigating controls; and
- Stock Exchange announcements.

Financial reporting and significant reporting matters

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2021 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's strategy, business model and performance.

The key area of judgement that the Committee considered in reviewing the financial statements was the valuation of the Group's investment properties.

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half-year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with members of the Picton team, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chair of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in April 2021 and confirmed that the following matters had been considered in discussions with the independent valuers:

- Property market conditions;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Audit and Risk Committee reviewed the Report from the Chair of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee considered the valuation and agreed that this was appropriate for the financial statements.

The Committee was satisfied that the 2021 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Risk Management Policy

The Committee has considered and developed a comprehensive Risk Management Policy which has been adopted by the Group.

The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, measurement, management, mitigation and reporting in respect of all activities undertaken by the Group. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of evaluation and identify risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

Internal controls

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. It has therefore established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also, the Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the performance of the Company against its strategy and receives regular reports from management covering all business activities.

The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2020, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income Limited.

Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place.

Independence of auditor

It is the policy of the Group that non-audit work will not be awarded to the external auditor if there is a risk their independence may be conflicted. The Committee monitors the level of fees incurred for non-audit services to ensure that this is not material, and obtains confirmation, where appropriate, that separate personnel are involved in any non-audit services provided to the Group. The Committee must approve in advance all non-audit assignments to be carried out by the external auditor.

The fees payable to the Group's auditor and its member firms are as follows:

	2021 £000	2020 £000
Audit fees	**174**	159
Interim review fees	**16**	16
Non-audit fees	**16**	16
	206	191

The non-audit fees include £16,000 for additional controls testing, carried out by KPMG Channel Islands Limited.

Annual auditor assessment

On an annual basis, the Committee assesses the qualifications, expertise and independence of the Group's external auditor, as well as the effectiveness of the audit process. It does this through discussion and enquiry with senior management, review of a detailed assessment questionnaire and confirmation from the external auditor. The Committee also considers the external audit plan, setting out the auditor's assessment of the key audit risk areas and reporting received from the external auditor in respect of both the half-year and year end reports and accounts.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited has confirmed that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of the audit report;
- The total fees paid by the Group during the year do not represent a material part of their total fee income; and
- They consider that they have maintained their independence throughout the year.

In evaluating KPMG Channel Islands Limited the Committee completed its assessment of the external auditor for the financial period under review. It has satisfied itself as to their qualifications and expertise and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009. They were reappointed as the Group's auditor following a tender process in February 2020. The current audit engagement partner, Deborah Smith, has served four years as audit partner.

The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

Mark Batten
Chair of the Audit and Risk Committee
26 May 2021

Remuneration Committee

Maria Bentley
Chair of the Remuneration Committee

The Remuneration Committee is chaired by Maria Bentley. The other members of the Committee are Lena Wilson, Mark Batten and Richard Jones.

> **We are putting forward a revised Remuneration Policy for approval by shareholders this year.**
>
> **Maria Bentley**
> Chair of the Remuneration Committee

Terms of reference

The Committee's terms of reference are available on the Company's website. The principal functions of the Committee as set out in the terms of reference include the following matters:

- Review the ongoing appropriateness and relevance of the Directors' Remuneration Policy;
- Determine the remuneration of the Chairman, Executive Directors and such members of the executive management as it is designated to consider;
- Review the design of all share incentive plans for approval by the Board; and
- Appoint and set the terms of reference for any remuneration consultants.

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Advisers

During the year, Deloitte LLP has provided independent advice in relation to market data, share valuations, share plan administration and content of the Remuneration Report. Total fees for the year were £43,500 (calculated on a time spent basis). Deloitte LLP is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition Deloitte also provided taxation services and advice to the Company during the year. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

Other attendees at Committee meetings during the year were Michael Morris and Andrew Dewhirst. Neither participated in discussions relating to their own remuneration.

Annual statement

Dear Shareholders

Introduction
On behalf of the Board, I am pleased to introduce the Remuneration Committee report for the year ended 31 March 2021.

This report comprises three sections:

— This annual statement;

— Directors' Remuneration Policy; and

— The Annual Report on Remuneration for the year ended 31 March 2021.

The Committee met eight times during the year and set out below is a summary of its activity.

Our Covid-19 response

Covid-19 impact

Remuneration is considered against the performance of the Group in the both the short and longer-terms, and against the broader economic backdrop. The Covid-19 pandemic has provided a number of challenges over the last financial year and is likely to continue to do so. Picton has continued to perform well, and this is set out in the Strategic Report. The decisions that we have taken this year have been made against the backdrop of the economic conditions in the UK, market practice and investor feedback. We have not had to furlough any employees and have not taken any form of Government support. We have worked with our occupiers through this difficult period and found solutions that have helped them but also maintained value for all our stakeholders. At the start of the pandemic we took the difficult decision to reduce our dividend, but have subsequently increased it twice, so that it is now at 91% of the pre-pandemic level. Our share price, although still at a discount to net asset value, has recovered significantly from where it was in the early stages of the pandemic.

Given the Group's performance and returns achieved the Committee considered it appropriate that the variable elements of remuneration pay out in accordance with their respective performance conditions having been met. The Committee determined that the outcomes did represent a fair reflection of the performance of the Group, and that no overriding adjustment was necessary.

New Remuneration Policy and adjustments to Executive Directors' remuneration mix and opportunity

The current Directors' Remuneration Policy was set in 2018 and approved by shareholders at the Annual General Meeting that year. It is now approaching the end of its three-year life, and we are putting forward a revised policy for approval by shareholders this year. Our existing policy is already compliant with most aspects of the 2018 Corporate Governance Code so there are relatively few changes in the proposed new policy. The principal change is the introduction of a post-employment shareholding guideline - further details are on page 88.

In parallel with the introduction of the new policy, the Committee has reviewed the Executive Directors' remuneration arrangements.

The current arrangements were set when Picton transitioned from an investment company to a UK REIT in 2018, and new Executive Director roles were established. At that time the remuneration packages for the appointed individuals were not adjusted commensurate with their new roles.

Our objective is to provide straightforward remuneration packages, justifiable to all stakeholders, which are designed so as to attract and retain outstanding talent and to fairly reward delivery of strategic priorities and enhanced shareholder value. We believe we are currently failing to meet aspects of this objective:

- Despite consistent outperformance, our Executive Directors are being paid significantly below the levels of most of their peers and with more at risk (due to a more significant skew in their remuneration mix towards annual bonus than most of our peers). This raises an issue of fairness about the current arrangements.
- The Committee is concerned that the extent of the gap between our Executive Directors and their peers enhances the risk that one of these individuals could be attracted elsewhere to receive a considerably higher pay package with the replacement cost for either most likely to be considerably higher to attract the right calibre of candidate.

Both of these issues stem from our decision not to adjust salaries to more fairly reflect the scale and responsibilities of the Executive Directors' roles when we transitioned to a UK REIT. We, therefore, have concluded that it is the right time to make sensible adjustments to the Executive Directors' remuneration packages to more fairly reflect their responsibilities as Directors of a listed company.

We are acutely aware that this is a particularly sensitive environment in which to be making changes to pay arrangements and the planned salary transition has been structured accordingly:

- The salary transition will be phased over a three-year period with changes in the second and third years being conditional on the Committee being satisfied that they remain appropriate in the context of prevailing business performance and economic circumstances.
- Salaries will be increased by 15% in 2021/22 for both Executive Directors and, subject to the aforementioned Committee review, there will be further 15% increases in 2022/23 and 2023/24. The Executive Directors received no pay rise in 2020/21.
- The maximum annual bonus potential will be reduced by 10% to 165% of salary in 2021/22 with further 10% decreases in 2022/23 (155% of salary) and 2023/24 (145% of salary) if the salary increases outlined above are enacted. This will result in a more market standard remuneration mix.
- As a consequence of these changes, we intend for the Executive Directors' total remuneration potential at the end of the three-year policy period in 2023/24 to be positioned slightly below the 2019/20 lower quartile of similar sized UK-listed REITs – we believe that this conservative market positioning is appropriate in the current circumstances.

We have consulted with our major shareholders on the above proposals and we received positive responses from consultees. We have also given careful consideration as to how these proposals will be received by employees and, in my role as designated Non-Executive Director with responsibility for employee engagement, I have consulted with them as part of this stakeholder engagement process.

Group performance and alignment

We have set out on pages 30 to 33 the key performance indicators (KPIs) that we currently use to monitor the success of the business. In order to appropriately align executive remuneration with business performance we incorporate KPIs within our incentive schemes. In both 2020/21 and 2021/22 the KPIs that we are using to determine variable remuneration are:

- Total return
- Total property return
- Total shareholder return
- Growth in EPRA earnings per share

The precise application of these measures to both the annual bonus and the Long-term Incentive Plan is set out later in the Report.

Annual bonus awards for 2020/21

The Executive Directors were set a number of challenging targets for this year, comprising a combination of financial measures and corporate and personal objectives.

The three financial measures were total return, total property return and growth in EPRA earnings per share. The actual outcomes are set out in the Annual Remuneration Report, but the overall result was that the Directors earned an estimated 77% of the maximum award available under these financial measures.

The corporate objectives were set in the context of the Covid-19 pandemic. These objectives were intended to ensure that the business was able to withstand the adverse impacts of the pandemic and be well positioned for a recovery. The Committee considered that the Executive Directors had largely met the corporate objectives, evidenced by the robust results for the year. More detail is provided later in this Remuneration Report, but overall the Committee considered that outcomes of 84% of the maximum award for the two Executive Directors were merited against the corporate objectives.

In aggregate, annual bonus awards for the two Executive Directors are 80% of the maximum award (2019/20 – 70% and 73% of maximum).

The Committee considered the formulaic bonus outcome in the context of the Group's overall performance for the year. Performance has been discussed earlier in the Report but particular points considered by the Committee included:

- The return from the property portfolio was upper quartile compared to the MSCI UK Quarterly Property Index for the year, and our long-term record of outperformance has been maintained over three, five and ten years.
- The Group's profit for the year was £34 million, giving a total return of 6.6%. The profit was some 50% higher than the previous year and achieved in a very challenging market.
- EPRA earnings for the year were slightly ahead of the previous year, with an increase in occupancy and lower costs offsetting the additional provisions made against income.
- The loan to value ratio has fallen, and no drawdowns have been made under the revolving credit facility.

The Committee concluded that it was satisfied the formulaic bonus outcome was a fair reflection of overall Group performance during the past financial year.

Long-term Incentive Plan awards (performance period to 31 March 2021)

The awards made under the Long-term Incentive Plan ('LTIP') in June 2018 were based on three performance conditions measured over the three-year period ended on 31 March 2021. The LTIP provides the link between the long-term success of the Company and the remuneration of the whole team. The Committee has assessed the extent to which these three performance conditions have been met.

The three equally weighted performance conditions were total shareholder return, total property return and growth in EPRA earnings per share. The actual outcomes for these conditions are set out in the Annual Remuneration Report and give rise to an overall award of 67% of the maximum granted. As explained above, the Committee concluded that it was satisfied that the formulaic outcome was a fair reflection of overall Group performance over the performance period.

Salary review for 2021/22

In considering the salary review for 2021/22, the Committee took into account a number of factors. They received an independent benchmarking report covering each of the roles within the Picton team and considered publicly available data and other market intelligence. The Committee's deliberations regarding the base salaries for the Executive Directors are set out above. For the remainder of the team as a whole the Committee determined that there would be an overall average rise of 6.4% in base salaries with effect from 1 April 2021.

Non-Executive Director fees

The fees for the Chair and Non-Executive Directors were last reviewed in 2018, at the start of the current Remuneration Policy. In conjunction with the new Policy, a further review of the fees was carried out, incorporating an independent market data report of similar companies, and an assessment of the annual time commitment for each role, including the Committee Chairs.

In light of this review, the following annual fee rates apply from 1 April 2021.

- The Chair fee is increased to £116,800 from £105,000
- The Non-Executive Director fee is increased to £45,000 from £40,000
- The additional fee for the Chair of the Audit and Risk, Remuneration and Property Valuation Committees is £7,500 (increased from £5,000 for the latter two roles)

The new rates position the fees at the market lower quartile, which is considered appropriate.

Corporate Governance Code 2018

We have considered the provisions of the 2018 Code in respect of remuneration and believe that our approach is compliant. In particular, we operate a consistent level of pension provision across our workforce; LTIP awards are only released five years after award; and malus and clawback provisions apply to all incentive awards. We have provisions in the rules of our remuneration share plans that prevent, other than in exceptional circumstances, accelerated vesting of awards when an employee leaves Picton. This year we introduced a post-employment shareholding guideline in the new Remuneration Policy.

The remuneration arrangements provide alignment with shareholders through the use of financial metrics and corporate objectives. All members of the team participate in the annual bonus and LTIP, not just the Executive Directors. The Remuneration Policy and its components are clearly set out in this Report and the rules of the variable remuneration schemes are available to the whole team. We use standard performance metrics, which are also Key Performance Indicators for the business, to determine awards. There are clear target and maximum levels for each condition.

The Committee believes that the variable remuneration schemes in place are fair and proportionate and align the remuneration of the team with the Group's performance. We are also satisfied that the remuneration structure does not encourage inappropriate risk-taking. The Committee does retain discretion over formulaic outcomes if it considers that these are not a fair reflection of the Group's performance.

Implementation of Policy

Our remuneration structure will be in accordance with the new Policy for the year to 31 March 2022.

The bonus deferral policy for Executive Directors will continue, with 50% of any annual bonus award being deferred into Picton shares for a period of two years before vesting. The maximum annual bonus potential for 2021/22 will fall to 165% of base salary for the Executive Directors as outlined above. As in previous years the annual bonus will be determined 60% by financial metrics and 40% by corporate objectives. For 2021/22 we intend to use two financial metrics, being total return, relative to a comparator group, and total property return, relative to the MSCI UK Quarterly Property Index. The Committee considered that EPRA earnings per share (previously used as a third annual bonus metric) was more appropriate as a longer-term measure.

This year we have reverted to our normal level of awards under the Long-term Incentive Plan. For the awards to be made in June 2021 for the three-year period to 31 March 2024 we will retain the three performance measures used previously, being:

- Total shareholder return, compared to a comparator group
- Total property return, compared to the MSCI UK Quarterly Property Index
- Growth in EPRA earnings per share

For the growth in EPRA earnings per share, we intend to use an absolute range of targets based on forecasts over the performance period.

As a Committee, we are committed to ongoing dialogue with our shareholders. We look forward to receiving your continued support at the forthcoming Annual General Meeting.

Maria Bentley
Chair of the Remuneration Committee
26 May 2021

Remuneration at a glance

The components of remuneration for 2020/21 are:

Fixed Pay

Base salary

Benefits

Pension contributions

Read more on pages 90-97

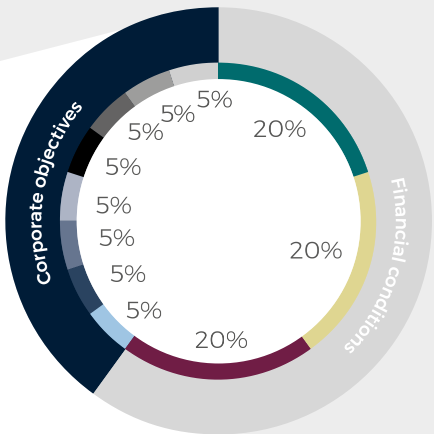
+

Variable pay

Annual (and deferred) bonus

Up to 50% of the annual bonus is deferred into shares which will vest in two years' time.

The annual bonus for 2020/21 is determined by:

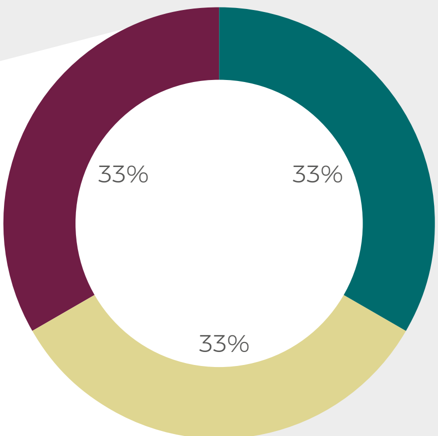


Personal and corporate objectives
- Strengthen Picton's reputation through crisis
- Ensure team adequately resourced and working effectively
- Ensure Picton values maintained. Make progress on Picton Promise
- Mitigate risks, manage cash flow, maintain loan covenants
- Work creatively to maintain income/value, increase occupancy
- Position the business for future opportunities
- Maximise rent collection while minimising arrears and write-offs
- Set sustainability commitments and targets

Financial conditions
- Total return
- Total property return
- Growth in EPRA earnings per share

Long-term Incentive Plan (LTIP)

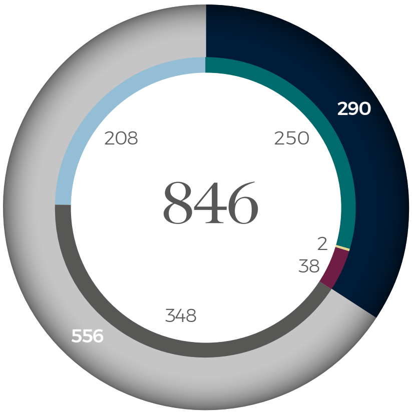
The LTIP is based on three financial metrics, each measured over three years:



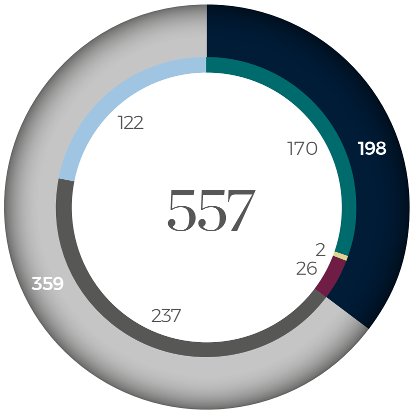
- Total shareholder return
- Total property return
- Growth in EPRA earnings per share

The single figure of remuneration for the Directors for the year 2020/21 (in £ thousands) is:

Chief Executive



Finance Director



Non-Executive Directors

Key:

Salary | Benefits | Pension | Annual bonus | Long-term Incentive Plan | **Total fixed** | **Total variable**

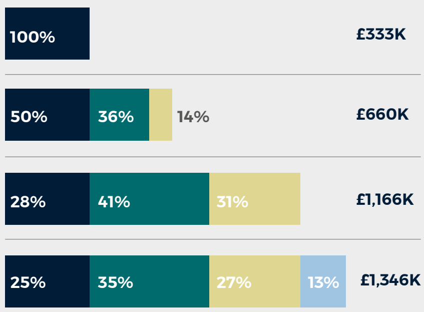
The potential remuneration of the Executive Directors for the year to 31 March 2022 is:

The following charts show the composition of the Executive Directors' remuneration at three performance levels:

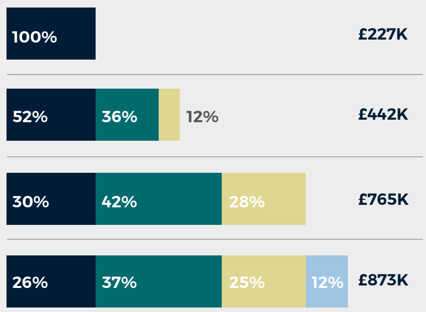
- **Fixed pay –** this comprises base salary from 1 April 2021, benefits and pension salary supplement of 15% of base salary
- **On target –** this is fixed pay plus target vesting for the annual bonus (at 50% of maximum opportunity for illustrative purposes) and threshold vesting for the LTIP (at 25% of maximum award)
- **Maximum –** Fixed pay plus maximum vesting for both the annual bonus (165% of base salary) and the LTIP (125% (Chief Executive) and 110% (Finance Director) of base salary)
- **Maximum with share price growth –** maximum scenario incorporating assumption of 50% share price growth during LTIP vesting period

Other than where stated, the charts do not incorporate share price growth or dividend equivalent awards.

Chief Executive



Finance Director



Total fixed | Annual bonus | LTIP | Share growth

Remuneration in context

Percentage change in remuneration

The table below shows the percentage change in total remuneration for each of the Directors between the years ended 31 March 2020 and 31 March 2021 compared to the average remuneration of the employees of the Group.

	Change from previous year		
	Base salary	Benefits	Annual bonus
Michael Morris	0%	0.6%	14.4%
Andrew Dewhirst	0%	0.8%	8.6%
Nicholas Thompson	0%	–	–
Mark Batten	0%	–	–
Maria Bentley	0%	–	–
Roger Lewis	0%	–	–
Average of all other employees	4.6%	8.1%	15.4%

The table above excludes those Non-Executive Directors who joined during the year ended 31 March 2021.

Relative importance of spend on pay

The table below shows the expenditure and percentage change in staff costs compared to other key financial indicators.

	31 March 2021 £000	31 March 2020 £000	% change
Employee costs	**3,219**	3,273	(1.6)%
Dividends	**15,002**	19,039	(21.2)%
EPRA earnings	**20,072**	19,912	0.8%

Directors' Remuneration Policy

The current Directors' Remuneration Policy was approved by our shareholders at the Annual General Meeting in 2018. The Remuneration Committee has reviewed the continued appropriateness of the current policy over a series of meetings which considered our strategic priorities, governance requirements and evolving market practice. Input was sought from the Chief Executive and Finance Director whilst ensuring that conflicts of interest were suitably mitigated. An external perspective was provided by our major shareholders and our independent advisers, Deloitte.

Shareholder approval will be sought at the forthcoming Annual General Meeting for the updated policy set out below. Subject to shareholder approval, the updated policy will take effect immediately after the Annual General Meeting and will apply to the 2021/22 financial year.

The updated policy is essentially consistent with the policy approved in 2018 – the only changes of note are:

- the introduction of a post-employment shareholding guideline whereby Executive Directors will be required to remain compliant with their existing 'in employment' shareholding guideline (200% of salary) for two years after stepping down as a Director; and
- the addition of flexibility to use ESG measures within the annual bonus.

Principles

The objective of the Group's Remuneration Policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

The Group aims to provide a remuneration package which will retain Directors who possess the skills and experience necessary to manage the Group and maximise shareholder value on a long-term basis. The Remuneration Policy aims to incentivise Directors by rewarding performance through enhanced shareholder value.

Executive Directors' Remuneration Policy Table

Base salary

Purpose	A base salary to attract and retain Executives of appropriate quality to deliver the Group's strategy.
Operation	Base salaries are normally reviewed annually with changes effective on 1 April. When setting base salaries the Committee will consider relevant market data, as well as the scope of the role and the individual's skills and experience.
Maximum	No absolute maximum has been set for Executive Director base salaries. Any annual increase in salaries is set at the discretion of the Remuneration Committee taking into account the factors stated in this table and the following principles: – Salaries would typically be increased at a rate consistent with the average employee salary increase. – Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). – Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.
Performance measures	None
Clawback	None

Pension

Purpose	Part of competitive remuneration package.
Operation	The Company has established defined contribution pension arrangements for all employees. For Executive Directors the Company pays a monthly salary supplement in lieu of Company pension contributions.
Maximum	A consistent rate of pension provision (15% of base salary) applies to all employees including Executive Directors.
Performance measures	None
Clawback	None

Benefits

Purpose	Part of a competitive remuneration package.
Operation	This principally comprises: – Private medical insurance – Life assurance – Permanent health insurance The Committee may agree to provide other benefits as it considers appropriate.
Maximum	Benefits are provided at market rates.
Performance measures	None
Clawback	None

Annual bonus

Purpose	A short-term incentive to reward Executive Directors on meeting the Company's annual financial and strategic targets and on their personal performance.
Operation	The Committee may determine that up to 50% of the annual bonus will be paid in the Company's shares and deferred for two years. Dividend equivalents will be paid at the end of the deferral period (in the form of shares or cash).
Maximum	The maximum bonus permitted under the Policy will be 175% of base salary. The level of bonus opportunity within this maximum will be determined by the Committee each year. In 2021/22, the maximum opportunity will be limited to 165% of base salary as explained on page 81 of this Remuneration Report.
Performance measures	The annual bonus is based on a range of financial, strategic, ESG, operational and individual targets (measured over a period of up to one year) set by the Committee. The weightings will also be determined annually to ensure alignment with the Company's strategic priorities although at least 50% of the award will be assessed on corporate financial measures. For corporate financial measures, 50% of the maximum bonus opportunity will be payable for on target performance and, if applicable, up to 25% for threshold performance.
Clawback	Malus and clawback provisions may be applied in the event (within two years of bonus determination/grant of the deferred bonus shares) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Long-term Incentive Plan

Purpose	A long-term incentive plan to align Executive Directors' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually usually in the form of a conditional share award or nil cost option. Awards will normally vest at the end of a three year period subject to meeting the performance conditions and continuing employment. The Remuneration Committee may award dividend equivalents (in the form of shares or cash) on awards that vest. The Committee will usually apply a holding period of a further two years to awards that vest.
Maximum	Annual awards with a maximum value of up to 150% of base salary may be made.
Performance measures	Vesting will be subject to performance conditions, aligned to the corporate strategy, as determined by the Committee on an annual basis. There will be three performance conditions each measured over a three-year performance period. Each condition will be equally weighted, but the Committee has the flexibility to vary this for each award. For threshold levels of performance up to 25% of the award vests, rising usually on a straight-line basis to 100% for maximum performance.
Clawback	Malus and clawback provisions may be applied in the event (within five years of grant) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Shareholding guidelines	
Purpose	To align Executive Directors with the interests of shareholders.
Operation	Whilst in employment, Executive Directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of basic salary. The Committee will review progress towards the guideline on an annual basis and has the discretion to adjust the guideline in what it feels are appropriate circumstances. Executive Directors will also be expected to remain compliant with the above guideline for a period of two years post-employment. This requirement will apply to shares from incentive awards due to be released from the date of adoption of the policy at the 2021 Annual General Meeting. The Committee would retain discretion to waive this guideline if it is not considered appropriate in the specific circumstances.
Maximum	Not applicable
Performance measures	Not applicable
Clawback	Not applicable

Non-Executive Directors Policy Table

Fees	
Purpose	To provide competitive Director fees.
Operation	Annual fee for the Chair, and annual base fees for other Non-Executive Directors. Additional fees for those Directors with additional responsibilities such as chairing a Board Committee. All fees will be payable monthly in arrears in cash. Fees will usually be reviewed independently every three years. The independent Non-Executive Directors are not eligible to receive share options or other performance-related elements, or receive any other benefits other than where travel to the Company's registered office is recognised as taxable benefit in which case a Non-Executive Director may receive the grossed-up costs of travel as a benefit. Non-Executive Directors are entitled to reimbursement of reasonable expenses.
Maximum	The Company's Articles set an annual limit for the total of Non-Executive Directors' remuneration of £300,000.
Performance measures	None
Clawback	None

Notes to table:

1. The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. The Committee also retains discretion to make downward or upward adjustments resulting from the application of the performance measures if it considers that an adjustment is appropriate (for example, if the outcomes are not deemed by the Committee to be a fair and accurate reflection of business performance). In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.
2. Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Remuneration Committee based on a range of relevant reference points, including for Group financial targets, the Company's business plan and are designed to be appropriately stretching.
3. The Committee may amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans.
4. Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Targets are considered ahead of each grant of LTIP awards by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.
5. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder approved Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
6. The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Service contracts

Executive Directors have service contracts containing the remuneration elements set out within this policy. There is no fixed length of service and notice periods do not exceed 12 months.

On termination the applicable payments for each element of remuneration are set out opposite.

The Executive Director service contracts are available for inspection at the Company's registered office.

Letters of appointment

Each independent Non-Executive Director has a letter of appointment which sets out the terms and conditions. They have a six-month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The independent Directors have no service contracts or interests in any material contracts with the Group.

Recruitment

The remuneration package for a new Executive Director would follow, as far as practicable, the above Policy Table. Salaries would reflect the skills and experience of the individual, and may be set at a level to allow progression and performance in the role. The structure of the variable remuneration elements would reflect those in the Policy Table. However, the Committee may flex the balance between annual and long-term incentives and the measures used to assess performance. If appropriate, different measures and targets may be applied to a new appointment's annual bonus and/or LTIP in their year of joining. Variable pay would be subject to the maximums set out in the Policy Table.

Where necessary the Committee may approve the payment of relocation expenses to facilitate recruitment, and flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to their appointment.

Where an Executive Director is an internal promotion, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Remuneration arrangements for a new Non-Executive Director would be consistent with the above Policy.

The Committee may agree to make compensatory payments for any remuneration arrangements subject to forfeit on leaving a previous employer. This would be considered for each specific case, taking into account any relevant factors relating to the recruitment. There is no limit on such payments, but the Committee would not intend to pay more than the commercial value forfeited. If necessary, the Committee may grant such awards under Listing Rule 9.4.2 R.

Policy for other employees

Remuneration for other employees broadly follows the same principles as for Executive Directors. A significant element of remuneration is linked to performance measures. All employees usually participate in the Long-term Incentive Plan, and in the annual bonus. The weighting of individual and corporate measures are dependent on an individual's role.

The Committee does not formally consult with employees when determining Executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for Executive Directors are regarded as fair and reasonable within the business.

Policy for payment on loss of office

On cessation of employment of an Executive Director the Committee will honour any contractual arrangements in place. The Committee may make any other payments in connection with loss of office in discharge of legal obligations or by way of a compromise or settlement of any claim arising. This may include reasonable amounts for outplacement assistance and professional or legal advice.

The Committee may, at its discretion, make an annual bonus payment for the year of cessation depending on the reason for leaving. The Committee will take into consideration appropriate performance measures which may include the individual's performance and contribution during the year, and the Group's financial results. The bonus would usually be time pro-rated and may be settled wholly in cash.

The treatment of outstanding deferred bonus and Long-term Incentive Plan awards will be governed by the relevant plan rules. In both cases unvested awards will normally lapse unless the participant is determined to be a good leaver. The vesting date for a good leaver's awards will normally be the original vesting date, but the Committee has the flexibility to determine that awards may vest at an earlier date. The Committee's determination of the extent to which a good leaver's LTIP awards should vest will take into account the extent to which performance conditions are met either at the date of cessation of employment or the end of the original performance period and, unless the Committee determines otherwise, will be adjusted on a time pro-rated basis. Where an individual leaves after the vesting date but before the end of any holding period, they will retain their LTIP awards unless summarily dismissed with awards being released at the normal date unless the Committee determines that they should be released at an earlier date.

Annual Report on Remuneration

Total remuneration for the year

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2021, with a comparison to the previous financial year:

		Salary/fees £000	Benefits £000	Pension salary supplement £000	**Total fixed £000**	Annual bonus £000	Deferred bonus £000	Long-term incentive plan £000	**Total variable £000**	**Total £000**
Executive										
Michael Morris	2021	250	2	38	**290**	174	174	208	**556**	**846**
	2020	250	2	38	**290**	153	152	174	**479**	**769**
Andrew Dewhirst	2021	170	2	26	**198**	119	118	122	**359**	**557**
	2020	170	2	26	**198**	109	109	102	**320**	**518**
Non-Executive										
Lena Wilson	2021	21	–	–	**21**	–	–	–	**–**	**21**
	2020	–	–	–	**–**	–	–	–	**–**	**–**
Nicholas Thompson	2021	82	–	–	**82**	–	–	–	**–**	**82**
	2020	98	–	–	**98**	–	–	–	**–**	**98**
Roger Lewis	2021	22	–	–	**22**	–	–	–	**–**	**22**
	2020	45	–	–	**45**	–	–	–	**–**	**45**
Mark Batten	2021	48	–	–	**48**	–	–	–	**–**	**48**
	2020	48	–	–	**48**	–	–	–	**–**	**48**
Maria Bentley	2021	45	–	–	**45**	–	–	–	**–**	**45**
	2020	49	–	–	**49**	–	–	–	**–**	**49**
Richard Jones	2021	26	–	–	**26**	–	–	–	**–**	**26**
	2020	–	–	–	**–**	–	–	–	**–**	**–**
Nicholas Wiles	2021	6	–	–	**6**	–	–	–	**–**	**6**
	2020	10	–	–	**10**	–	–	–	**–**	**10**
Total (audited)	2021	670	4	64	**738**	293	292	330	**915**	**1,653**
	2020	670	4	64	**738**	262	261	276	**799**	**1,537**

Benefits comprise private medical insurance and life assurance.

Executive Directors receive a salary supplement of 15% of base salary in lieu of company pension contributions.

The value of LTIP awards is based on the number of shares to be awarded to the Executive Directors and the average share price over the quarter ended 31 March 2021 of 84.71 pence, and the estimated value of dividend equivalents.

The above 2020 LTIP figures for the Executive Directors have been restated to reflect the actual share price at vesting (67.83 pence) rather than the average for the quarter ended 31 March 2020 (92.64 pence). This restatement represents a reduction in the value of the 2020 LTIP awards by £55,000 for Michael Morris and by £33,000 for Andrew Dewhirst.

Lena Wilson joined the Board on 1 January 2021 and was appointed as Chair from 1 February 2021. Richard Jones joined the Board on 1 September 2020.

Nicholas Thompson retired from the Board on 31 January 2021.

Nicholas Wiles joined the Board on 1 January 2020 and resigned on 20 May 2020.

Annual bonus for 2020/21

The annual bonus for the year ended 31 March 2021 for the Executive Directors was based on a combination of financial metrics (60%) and corporate objectives (40%).

The targets set for the year ended 31 March 2021 and the assessment of actual performance achieved are set out in the table opposite.

The financial metrics comprised three equally weighted components: total return relative to a comparator group of similar companies, set out later in this Report; total property return compared to the MSCI UK Quarterly Property Index; and growth in EPRA earnings per share over the financial year.

At the date of this Report not all of the companies in the total return comparator group had announced their results to 31 March 2021 and the Committee has estimated, based on the results to date, that this condition will be met at the upper level, resulting in an award of 100%. The Committee will determine the actual outcome of this condition once all companies have reported, and any adjustment required between the estimate and actual will be made in next year's Remuneration Report. There will be no payout of the bonus until a finalised result can be confirmed.

Performance condition	Basis of calculation	Range	Actual	Awarded (% of maximum)	Awarded (% of salary)
Total return versus comparator group **Bonus weighting: 20%**	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Not yet available	6.6%	100% (estimate)	35% (estimate)
Total property return versus MSCI Index **Bonus weighting: 20%**	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Median 2.6% Upper quartile 4.9%	7.3% (above upper quartile)	100%	35%
Growth in EPRA EPS **Bonus weighting: 20%**	Less than 3.66p – 0% Equal to 3.66p – 25% Equal to or greater than 3.84p – 100%	3.66p to 3.84p	3.67p	31%	10.8%

The corporate objectives for the Executive Directors for the year to 31 March 2021 were determined by the Remuneration Committee and accounted for 40% of the maximum award.

The corporate objectives applying to both Executives, and the assessment of performance against these, are as follows:

Performance condition	**Assessment**	**Awarded (% of maximum)**	**Awarded (% of salary)**
Strengthen Picton's reputation through crisis **Bonus weighting: 5%**	Throughout the pandemic there has been considerable engagement with occupiers, with positive feedback received. There has also been positive commentary from real estate analysts and from the Company's brokers. Although the dividend was reduced at the start of the pandemic this was a smaller reduction than many other companies in the sector, and has been followed by two subsequent increases, earlier than others in the sector. The share price has been at a discount to net asset value, but this has narrowed over the latter half of the year, and compares favourably with the comparator group. Dividend cover for the year was in excess of 130%. The Group has not taken any form of Government support, nor placed any employees on furlough.	80%	7%
Ensure team adequately resourced and working effectively **Bonus weighting: 5%**	The employee satisfaction score increased to 85% from 83%. There were no leavers during the year. There was positive feedback from the employees to the Non-Executive Directors, especially in the context of remote working. The office move to Stanford Building was successfully completed.	80%	7%
Ensure Picton values maintained. Make progress on Picton Promise **Bonus weighting: 5%**	There has been a high level of engagement with occupiers during the pandemic. Assistance has been given to support over 90 occupiers, either through monthly payments or rental assistance. A vacant unit was provided to London Ambulance Service during the pandemic.	80%	7%
Mitigate risks, manage cash flow, maintain loan covenants **Bonus weighting: 5%**	Loan covenants were complied with throughout the year, with no additional borrowing incurred. Cash balances remained positive throughout the year. Rent collection was consistently high, which enabled two dividend increases in the second half of the year. Administrative expenses, property and finance costs were all lower than the preceding year. The cost ratio was 1.0%, lower than the preceding year.	90%	7.9%

Governance
Remuneration Report continued

Performance condition	Assessment	Awarded (% of maximum)	Awarded (% of salary)
Work creatively to maintain income/ value, increase occupancy **Bonus weighting: 5%**	Occupancy has increased to 91%. Portfolio capital growth is ahead of the MSCI UK Property Index for the year. In 28 cases where support was provided, lease extensions, rent review settlements, and break removals were tied in with concessions.	90%	7.9%
Position the business for future opportunities **Bonus weighting: 5%**	The Group's loan to value ratio has reduced over the year. Dividend cover was over 130% for the year. New office at Stanford Building provides expansion space.	80%	7%
Maximise rent collection while minimising arrears and write-offs **Bonus weighting: 5%**	Rent collection for the year was 93%, including amounts deferred. Rent concessions amounted to 4% of rent due over the year. Rental income was 97% of 2020 result.	90%	7.9%
Set sustainability commitments and targets **Bonus weighting: 5%**	An action plan has been developed, based on the material issues identified in the previous year. Targets and objectives have been formulated, while the net zero carbon pathway will be determined in 2021.	80%	7%

As discussed in the Committee Chair's statement on pages 80 to 83, the Committee considered the formulaic bonus outcome in the context of the Group's overall performance for the year and concluded that it was satisfied that the formulaic bonus outcome was a fair reflection of overall Group performance during the year. The Committee was also satisfied that the above performance was achieved within an acceptable risk profile.

Subject to the estimated total return component noted above, the overall annual bonus outcome for the Executive Directors is, therefore, as follows:

	Financial metrics (out of maximum 60%)	Corporate objectives (out of maximum 40%)	Overall bonus % of maximum	Bonus % of salary	Total bonus £
Michael Morris	46.2	33.5	79.7	139.4	348,600
Andrew Dewhirst	46.2	33.5	79.7	139.4	237,000

In accordance with the Directors' Remuneration Policy the Committee has determined that 50% of the annual bonuses awarded to the Executive Directors should be deferred and payable in shares in two years' time. Dividend equivalents will accrue on the shares and these will be paid in cash when the awards vest.

Long-term Incentive Plan

The LTIP awards granted on 8 June 2018 were subject to performance conditions for the three years ended 31 March 2021. The performance conditions and the actual performance for these were as follows:

Performance condition	Basis of calculation	Range	Actual	Weighting (% of award)	Awarded (% of maximum)
Total shareholder return versus comparator group	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median – (12.4)% Upper quartile – 4.9%	14.5% (above upper quartile)	33.3%	100%
Total property return versus MSCI Index	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median – 3.1% Upper quartile – 4.6%	6.7% (above upper quartile)	33.3%	100%
Growth in EPRA EPS	Less than 3% per annum – 0% Equal to 3% per annum – 25% Equal or greater than 9% per annum – 100%	3% – 4.58p 9% – 5.43p	3.67p	33.3%	0%

The Committee was satisfied that the above performance was achieved within an acceptable risk profile. As discussed in the Committee Chair's statement on pages 80 to 83, the Committee considered the formulaic LTIP outcome in the context of the Group's overall performance over the performance period and concluded that it was satisfied the formulaic outcome was a fair reflection of overall Group performance during the period. Based on the vesting percentage above, the shares awarded and their estimated values, using an average share price of 84.71 pence for the quarter ended 31 March 2021, are:

Director	Maximum number of shares at grant	Number of shares vesting	Number of lapsed shares	Estimated value[1,2] £
Michael Morris	330,396	220,263	110,133	207,895
Andrew Dewhirst	193,833	129,221	64,612	121,965

1. The estimated value includes dividend equivalent awards which will be made in relation to vested LTIP awards at the point of vesting. The value of the dividend equivalent awards is £21,310 (Michael Morris) and £12,502 (Andrew Dewhirst).
2. The average share price for the quarter ended 31 March 2021 is lower than the share price at grant so there has been no share price growth in the estimated value of the awards.

The following awards in the Long-term Incentive Plan were granted to the Executive Directors on 29 June 2020:

	Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
Michael Morris	309,275	87.5%	0.7073	218,750	1 April 2020 to 31 March 2023	25%
Andrew Dewhirst	185,070	77%	0.7073	130,900	1 April 2020 to 31 March 2023	25%

The face value is based on a weighted average price per share, being the average of the closing share prices over the three business days immediately preceding the award date. Awards will vest after three years subject to continued service and the achievement of three equally weighted performance conditions (relative total shareholder return, relative total property return and EPRA EPS). The vesting schedule for the relative measures will be as applied to the June 2018 LTIP set out above. The EPS element will vest at 25% for achievement of EPRA EPS of 3.75p in the year ended 31 March 2023 increasing on a straight line basis to 100% vesting for EPRA EPS of 4.1p.

Any LTIP vesting will also be subject to the Remuneration Committee confirming that, in its assessment, the vesting outturn was achieved within an acceptable risk profile.

The Executive Directors have the following outstanding share awards under the Long-term Incentive Plan and Deferred Bonus Plan:

	Date of grant	Performance period	Market value on date of grant	At 1 April 2020	Granted in year	Exercised in year	Lapsed in year	**As at 31 March 2021**
Michael Morris								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	296,815	–	(296,815)	–	**–**
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	334,150	–	(222,766)	(111,384)	**–**
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	330,396	–	–	–	**330,396**
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	328,153	–	–	–	**328,153**
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	–	309,275	–	–	**309,275**
2019 DBP	19 June 2019	1 April 2018 to 31 March 2019	95.23p	175,137	–	–	–	**175,137**
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	–	215,333	–	–	**215,333**
				1,464,651	**524,608**	**(519,581)**	**(111,384)**	**1,358,294**

Governance
Remuneration Report continued

	Date of grant	Performance period	Market value on date of grant	At 1 April 2020	Granted in year	Exercised in year	Lapsed in year	**As at 31 March 2021**
Andrew Dewhirst								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	174,899	–	(174,899)	–	**–**
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	196,898	–	(131,265)	(65,633)	**–**
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	193,833	–	–	–	**193,833**
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	214,218	–	–	–	**214,218**
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	–	185,070	–	–	**185,070**
2019 DBP	19 June 2019	1 April 2018 to 31 March 2019	95.23p	116,758	–	–	–	**116,758**
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	–	154,312	–	–	**154,312**
				896,606	**339,382**	**(306,164)**	**(65,633)**	**864,191**

Awards under the Long-term Incentive Plan normally vest three years after the grant date. Awards from 2019 onwards are subject to a further two-year holding period. Awards under the Deferred Bonus Plan normally vest two years after the grant date.

Comparator group

The Committee has agreed that the following companies will be used as a comparator group for the total shareholder return and total return metrics in determining variable remuneration for 2021/22 awards. A smaller group is used for the total return metric due to the different reporting periods of some companies.

Company	Total shareholder return	Total return
AEW UK REIT plc	✓	✓
BMO Commercial Property Trust Limited	✓	✓
BMO UK Real Estate Investments Limited	✓	✓
Capital & Regional plc	✓	
Custodian REIT plc	✓	✓
Ediston Property Investment Company PLC	✓	✓
McKay Securities PLC	✓	✓
NewRiver REIT PLC	✓	✓
Regional REIT Limited	✓	
Schroder Real Estate Investment Trust Limited	✓	✓
Standard Life Investments Property Income Trust Limited	✓	✓
Supermarket Income REIT PLC	✓	
UK Commercial Property REIT Limited	✓	✓
Warehouse REIT plc	✓	✓

Supermarket Income REIT and Warehouse REIT were added to the group for awards made from 2019 onwards.

Hansteen Holdings plc and Mucklow (A.&J.) PLC were additionally included in the group for awards made up to and including 2019.

LondonMetric Property PLC and RDI REIT plc were additionally included in the group for awards made up to and including 2020.

Tritax Big Box REIT was additionally included in the group for awards made in 2017 only.

Statement of Directors' shareholdings

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors.

The numbers of shares beneficially held by each Director (including connected persons) as at 31 March 2021, were as follows:

	Beneficial holding 2021	Beneficial holding 2020	Holding as a % of salary	Outstanding LTIP awards	Outstanding DBP awards
Michael Morris	328,485	53,596	113	967,824	390,470
Andrew Dewhirst	201,978	28,500	102	593,121	271,070
Lena Wilson	30,000	N/A			
Nicholas Thompson	N/A	215,000			
Roger Lewis	N/A	600,000			
Mark Batten	–	–			
Maria Bentley	74,436	74,436			
Richard Jones	53,845	N/A			

The percentage holding for the Executive Directors is based on base salaries as at 31 March 2021 and a share price of £0.858. The beneficial holdings of shares include any held by connected persons.

Executive Directors are required to maintain a shareholding of 200% of base salary and both Directors are currently in the process of building up to that level. The Executive Directors intend to retain at least 50% of any share awards (post-tax) until the guidelines are met.

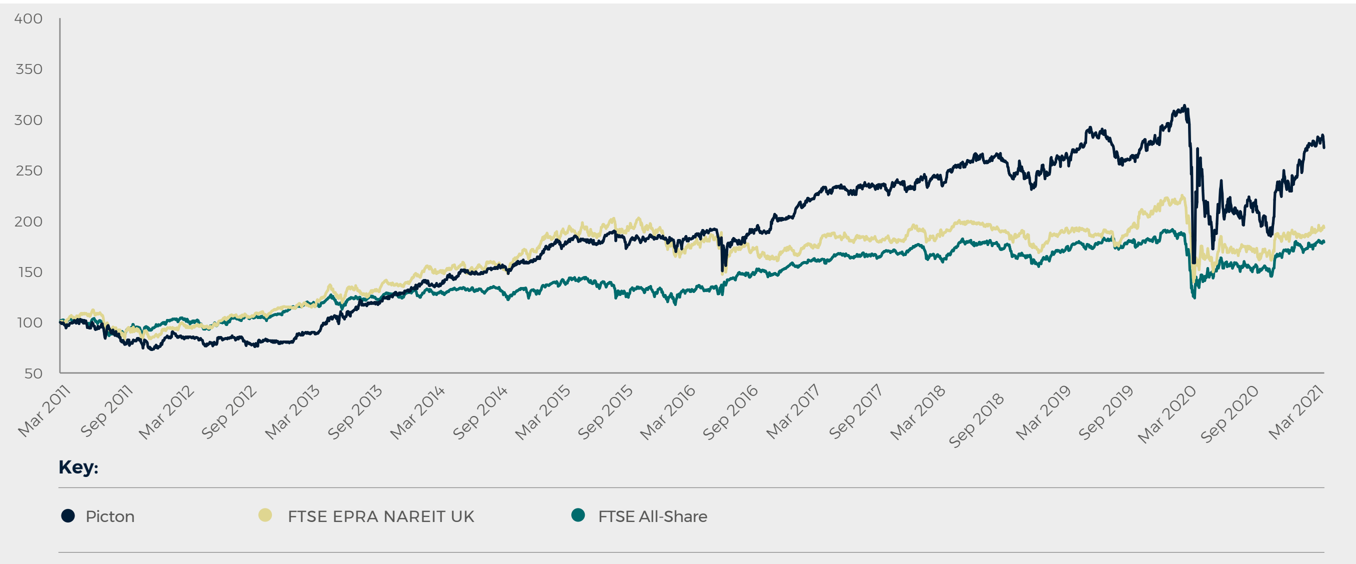
There have been no changes in these shareholdings between the year-end and the date of this report.

Payments to past Directors or payments for loss of office

There were no payments to past Directors or payments for loss of office to Directors during the year ended 31 March 2021.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 31 March 2011 as represented by share price growth with dividends reinvested, against the FTSE All-Share Index and the FTSE EPRA NAREIT UK Index. These indices have been chosen as they provide comparison against relevant sectoral and pan-sectoral benchmarks.



The table below shows the remuneration of the Chief Executive for the past three years, together with the annual bonus percentage and LTIP vesting level. The Company has only had a Chief Executive since 1 October 2018 and therefore the table below shows his remuneration for the past three years.

	Total remuneration (£000)	Annual bonus (% of maximum)	LTIP vesting (% of maximum award)
2021	846	80%	67%
2020	769	70%	67%
2019	920	79%	83%

Implementation of Remuneration Policy in 2021/22

		Change from prior year
Executive Directors		
Base salaries	Michael Morris (Chief Executive) – £287,500 Andrew Dewhirst (Finance Director) – £195,500	As set out in the Committee Chair's statement base salaries for both of the Executive Directors will increase by 15% this year. The average increase for the rest of the workforce is 6.4%.
Pension and benefits	15% salary supplement in lieu of pension plus standard other benefits	No change. All employees receive company pension contributions at the rate of 15% of base salary or 15% salary supplement in lieu of company contributions.
Annual bonus*	Maximum bonus of 165% of salary with 50% of any bonus deferred in shares for two years 60% of bonus to be determined by corporate financial metrics of relative total property return (using the same performance target ranges as in 2020/21) with the remaining 40% determined by strategic and personal measures	As set out in the Committee Chair's statement the maximum bonus potential for Executive Directors will decrease from 175% of salary to 165% of salary this year and two financial metrics will be used this year rather than three.
LTIP*	Award of shares worth: — Michael Morris (Chief Executive) 125% of salary — Andrew Dewhirst (Finance Director) 110% of salary Shares released after three-year performance and two-year holding period. Vesting of shares based equally on relative total shareholder return, relative total property return and growth in EPRA earnings per share measures. Target ranges for the relative measures are as set out on page 91. Targets for the EPS measure for the year ended 31 March 2024 are: Less than 3.85 pence per share – 0% Equal to 3.85 pence per share – 25% Greater than 4.25 pence per share – 100% A result between 3.85 pence and 4.25 pence will be calculated on a straight-line basis between 25% and 100%	Awards to the Executive Directors have been restored this year back to a normal level.
Non-Executive Directors		
Fees	Chair – £116,800 Director – £45,000 Supplementary fee for Committee Chairs – £7,500	As set out in the Committee Chair's statement, the Chair fee has been increased from £105,000 to £116,800 and the Non-Executive Director fee from £40,000 to £45,000 with effect from 1 April 2021. The supplementary fee for all Committee Chairs will be £7,500, an increase from £5,000 for the Remuneration and Property Valuation Committee Chairs. There is no change for the Chair of the Audit and Risk Committee.

*The Remuneration Committee has discretion to override the formulaic outcomes in both the annual bonus and LTIP.

The Committee also confirms that performance has been achieved within an acceptable risk profile before payouts are made. Incentive payouts are subject to malus and clawback provisions.

Statement of voting at the last Annual General Meeting

The following table sets out the voting for the Remuneration Report, which was approved by shareholders at the Annual General Meeting held on 18 November 2020, representing 52% of the issued share capital of the Company, and also for the Remuneration Policy, which was approved by shareholders at the Annual General Meeting held on 13 September 2018, representing 31% of the issued share capital of the Company.

	Remuneration Report		Remuneration Policy	
	Votes cast	%	Votes cast	%
For	287,135,654	96.81	148,636,904	94.98
Against	9,476,646	3.19	7,853,028	5.02
Votes cast	**278,749,348**	**100.0**	**156,489,932**	**100.0**
Withheld	48,528		10,100,551	

Maria Bentley
Chair of the Remuneration Committee
26 May 2021

Property Valuation Committee

Richard Jones
Chair of the Property Valuation Committee

The Property Valuation Committee is chaired by Richard Jones. The other members of the Committee are Lena Wilson, Mark Batten and Maria Bentley. Richard Jones became Chair of the Committee on 1 October 2020 after Roger Lewis retired from the Board.

Activity

The Committee met four times during the year ended 31 March 2021. Members of the Property Valuation Committee, together with management, met with the independent valuer each quarter to review the valuations and considered the following matters:

- Property market conditions and trends;
- Movements compared to previous quarters;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Committee was satisfied with the valuation process throughout the year.

External valuer

CBRE Limited was appointed as the external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter, the results of which are incorporated into the Group's half-year and annual financial statements, and the quarterly net asset statements.

The Committee reviewed the performance of the valuer and recommended that the appointment be continued for a further 12 months.

Material uncertainty

As a result of the Covid-19 pandemic a 'material uncertainty' statement was applied to the March 2020 and June 2020 valuations. From 30 September 2020 the statement was removed entirely from the valuers' reports as there was deemed to be sufficient market evidence to render the qualification unnecessary.

Richard Jones
Chair of the Property Valuation Committee
26 May 2021

Terms of reference

The Committee shall review the quarterly valuation reports produced by the independent valuers before their submission to the Board, looking in particular at:

- Significant adjustments from previous quarters;
- Individual property valuations;
- Commentary from management;
- Significant issues that should be raised with management;
- Material and unexplained movements in the Company's net asset value;
- Compliance with applicable standards and guidelines;
- Reviewing findings or recommendations of the valuers; and
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate.

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www.picton.co.uk

Directors' Report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2021.

The Company is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

The principal activity of the Group is commercial property investment in the United Kingdom.

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income.

The Company is a UK Real Estate Investment Trust (REIT) and must distribute to its shareholders at least 90% of the profits on its property rental business for each accounting period as a Property Income Distribution (PID).

As set out in Note 10 to the consolidated financial statements, the Company has paid four interim dividends in the year, two at 0.625 pence per share, one at 0.7 pence per share and one at 0.8 pence per share, making a total dividend for the year ended 31 March 2021 of 2.75 pence per share (2020: 3.5 pence). All four interim dividends were paid as PIDs.

Directors

The Directors of the Company who served throughout the year are:

- Lena Wilson (appointed 1 January 2021)
- Nicholas Thompson (resigned 31 January 2021)
- Michael Morris
- Andrew Dewhirst
- Mark Batten
- Maria Bentley
- Richard Jones (appointed 1 September 2020)
- Roger Lewis (resigned 30 September 2020)
- Nicholas Wiles (resigned 20 May 2020)

The Directors' interests in the shares of the Company as at 31 March 2021 are set out in the Remuneration Report.

All of the Directors will offer themselves for re-election at the forthcoming Annual General Meeting.

2018 UK Corporate Governance Code Compliance Statement

The Board confirms that for the year ended 31 March 2021 the principles of good corporate governance contained in the 2018 UK Corporate Governance Code have been consistently applied, with the exception of the matter described below.

As both Nicholas Thompson and Roger Lewis served on the Board for more than nine years before their retirement this year, the Company has not complied with those provisions within the Code relating to tenure for the whole of the year ended 31 March 2021.

With the changes to the Board made during the year the Company is now fully compliant with the Code.

Listing

The Company is listed on the main market of the London Stock Exchange.

Share capital

The issued share capital of the Company as at 31 March 2021 was 547,605,596 (2020: 547,605,596) ordinary shares of no par value, including 2,052,269 ordinary shares which are held by the Trustee of the Company's Employee Benefit Trust (2020: 2,103,683 ordinary shares).

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the renewal of this authority from shareholders at each Annual General Meeting. Any buy-back of ordinary shares is, and will be, made subject to Guernsey law, and the making and timing of any buy-backs are at the absolute discretion of the Board. No ordinary shares were purchased under this authority during the year.

At the 2020 Annual General Meeting shareholders gave the Directors authority to issue up to 54,760,558 shares (being 10% of the Company's issued share capital as at 14 October 2020) without having to first offer those shares to existing shareholders. No ordinary shares have been issued under this authority, which expires at this year's Annual General Meeting and resolutions will be proposed for its renewal.

Shares held in the Employee Benefit Trust

The Trustee of the Picton Property Income Limited Long-term Incentive Plan holds 2,052,269 ordinary shares in the Company in a trust to satisfy awards made under the Long-term Incentive Plan and the Deferred Bonus Plan. During the year the Trustee acquired 958,000 ordinary shares at 67.0 pence per share. The Trustee has waived its right to receive dividends on the shares it holds.

Statement of going concern

The Directors have focused on assessing whether the going concern basis remains appropriate for the preparation of the financial statements for the year ended 31 March 2021, including giving consideration to the impact of the Covid-19 pandemic on the UK economy. In making their assessment the Directors have considered the principal and emerging risks relating to the Group, its loan covenants, access to funding and liquidity position. They have also considered a number of scenarios in particular as regards to the impact of different levels of rent collection across the portfolio and over varying timescales, and the potential consequences on financial performance, asset values, capital projects and loan covenants. Leasing and investment transactions have been assumed to be curtailed throughout the assessment period. Future lease events over the assessment period have been considered on a case-by-case basis to determine the range of most likely outcomes. More details regarding the Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report. Further information on the financial position of the Group, including its liquidity position, borrowing facilities and debt maturity profile, is set out in the Financial Review and in the consolidated financial statements.

Under all of these scenarios the Group has sufficient cash resources to continue its operations, and remain within its loan covenants, for a period of at least 12 months from the date of these financial statements.

Based on their assessment and knowledge of the portfolio and market, the Directors have therefore continued to adopt the going concern basis in preparing the financial statements.

Viability assessment and statement

The UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal and emerging risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment.

The Board conducted this review over a five-year timescale, considered to be the most appropriate for long-term investment in commercial property. The assessment has been undertaken taking into account the principal and emerging risks and uncertainties faced by the Group which could impact its investment strategy, future performance, loan covenants and liquidity.

The major risks identified were those relating to the Covid-19 pandemic and its potential impact on the UK economy and commercial property market over the period of the assessment. In the ordinary course of business, the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model allows for different assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model covers a five-year period and is stress tested under various scenarios.

In the context of the Covid-19 pandemic the Board considered a number of scenarios around its impact on the Group's property portfolio and financial position. These scenarios included different levels of rent collection, occupier defaults, void periods and incentives within the portfolio, and the consequential impact on property costs and loan covenants. All lease events and assumptions were reviewed over the period under the different scenarios and their impact on revenue and cash flow. Future letting activity was assumed to be curtailed during the initial period of the assessment. Forecast movements in capital values were included in these scenarios including their potential impact on the Group's loan covenants. The Group's long-term loan facilities are in place throughout the assessment period, while the Board assumed that the Group would continue to have access to its short-term facilities. The Board considered the impact of these scenarios on its ability to continue to pay dividends at different rates over the assessment period.

These matters were assessed over the period to 31 March 2026 and will continue to be assessed over five-year rolling periods.

The Directors consider that the stress testing performed was sufficiently robust that even under extreme conditions the Company remains viable.

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 March 2026.

Substantial shareholdings

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 20 May 2021.

	% of issued share capital
Investec Wealth & Investment Limited	14.2
Bank of Montreal	7.3
BlackRock Inc.	5.5
Mattioli Woods plc	5.3
Brewin Dolphin Limited	4.7
The Vanguard Group Inc.	4.1
Smith & Williamson Investment Management	3.8

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG Channel Islands Limited (the 'Auditor') has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its reappointment will be submitted at the Annual General Meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards, as issued by the IASB, 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 Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and 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 Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal controls as they determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Directors' responsibility statement in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

- the 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 Strategic Report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By Order of the Board

Andrew Dewhirst
26 May 2021

Independent Auditor's Report to the Members of Picton Property Income Limited

Our opinion is unmodified

We have audited the consolidated financial statements of Picton Property Income Limited (the 'Company') and its subsidiaries (together, the 'Group'), which comprise the consolidated balance sheet as at 31 March 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 March 2021, and of the Group's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key audit matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2020):

Valuation of investment properties
£665.4 million (2020: £654.5 million)
Refer to page 77 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 13 investment properties disclosures

The risk	Our response
Basis: The Group's investment properties accounted for 93% (2020: 94%) of the Group's total assets as at 31 March 2021. The fair value of investment properties at 31 March 2021 was assessed by the Board of Directors based on independent valuations prepared by the Group's third party independent valuer (the 'Valuer'). **Risk:** The valuation of the Group's investment properties is a significant area of our audit given that it represents the majority of the total assets of the Group and in view of the significance of the estimates and judgements that may be involved in the determination of their fair value.	*Our audit procedures included:* **Control evaluation:** We assessed the design, implementation and operating effectiveness of controls over the valuation of investment properties including the capture and recording of information contained in the lease database for investment properties. **Evaluating experts engaged by management:** We assessed the competence, capabilities and objectivity of the Valuer. We also assessed the independence of the Valuer by considering the scope of their work and the terms of their engagement. **Evaluating assumptions and inputs used in the valuation:** With the assistance of our own Real Estate valuation specialist we assessed the valuations prepared by the Valuer by:: — evaluating the appropriateness of the valuation methodologies and assumptions used — undertaking discussions on key findings with the Valuer and challenging the valuations based on market information and knowledge — assessing the assumptions applied by the Valuer in relation to rental collections and void periods resulting from Covid-19 We also compared a sample of the key inputs used to calculate the valuations such as annual rent and tenancy contracts for consistency with other audit findings. **Assessing disclosures:** We also considered the Group's investment property valuation policies and their application as described in the notes to the consolidated financial statements for compliance with IFRS in addition to the adequacy of disclosures in Note 13 in relation to fair value of the investment properties including the impact of Covid-19.

Our application of materiality and an overview of the scope of our audit

Materiality for the consolidated financial statements as a whole was set at £7.1 million, determined with reference to a benchmark of group total assets of £712.5 million, of which it represents approximately 1% (2020: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £5.3 million. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £356,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total group revenue, total group profit before tax, and total group assets and liabilities.

Going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements (the 'going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group and the Company's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments;
- The ability to successfully refinance or repay debt; and
- The ability of the Company to comply with debt covenants.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in Note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in the notes to the consolidated financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the Company's use of that basis for the going concern period, and that statement is materially consistent with the consolidated financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Group's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

Independent Auditor's Report to the Members of Picton Property Income Limited
continued

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines or litigation or impacts on the Group and the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Disclosures of emerging and principal risks and longer term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the consolidated financial statements and our audit knowledge. We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability assessment and statement (page 100) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures describing these emerging and principal risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability assessment and statement (page 100) as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We are also required to review the Viability assessment and statement, set out on page 100 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the consolidated financial statements and our audit knowledge.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the consolidated financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and consolidated financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

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

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the consolidated financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 101, the Directors are responsible for: the preparation of the consolidated financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Deborah Smith
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors, Guernsey

26 May 2021

Financial Statements

Consolidated statement of comprehensive income

for the year ended 31 March 2021

	Notes	2021 Total £000	2020 Total £000
Income			
Revenue from properties	3	**43,331**	45,664
Property expenses	4	**(9,877)**	(12,027)
Net property income		**33,454**	33,637
Expenses			
Administrative expenses	6	**(5,388)**	(5,563)
Total operating expenses		**(5,388)**	(5,563)
Operating profit before movement on investments		**28,066**	28,074
Investments			
Profit on disposal of investment properties	13	**868**	3,478
Investment property valuation movements	13	**12,861**	(882)
Total profit on investments		**13,729**	2,596
Operating profit		**41,795**	30,670
Financing			
Interest received		**5**	9
Interest paid	8	**(7,999)**	(8,295)
Total finance costs		**(7,994)**	(8,286)
Profit before tax		**33,801**	22,384
Tax	9	**–**	124
Profit and total comprehensive income for the period		**33,801**	22,508
Earnings per share			
Basic	11	**6.2p**	4.1p
Diluted	11	**6.2p**	4.1p

All items in the above statement derive from continuing operations.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Notes	Share capital £000	Retained earnings £000	Other reserves £000	Total £000
Balance as at 31 March 2019		**157,449**	**342,252**	**(286)**	**499,415**
Profit for the year		–	22,508	–	22,508
Dividends paid	10	–	(19,039)	–	(19,039)
Issue of ordinary shares	20	7,137	–	–	7,137
Issue costs of shares		(186)	–	–	(186)
Vesting of shares held in trust		–	(54)	54	–
Share-based awards	7	–	–	292	292
Purchase of shares held in trust	7	–	–	(844)	(844)
Balance as at 31 March 2020		**164,400**	**345,667**	**(784)**	**509,283**
Profit for the year		–	33,801	–	33,801
Dividends paid	10	–	(15,002)	–	(15,002)
Share-based awards	7	–	–	758	758
Purchase of shares held in trust	7	–	–	(643)	(643)
Balance as at 31 March 2021		**164,400**	**364,466**	**(669)**	**528,197**

Notes 1 to 27 form part of these consolidated financial statements.

Financial Statements

Consolidated balance sheet

as at 31 March 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Investment properties	13	**665,418**	654,486
Property, plant and equipment	14	**4,111**	20
Total non-current assets		**669,529**	654,506
Current assets			
Accounts receivable	15	**19,584**	17,601
Cash and cash equivalents	16	**23,358**	23,567
Total current assets		**42,942**	41,168
Total assets		**712,471**	695,674
Current liabilities			
Accounts payable and accruals	17	**(18,805)**	(19,438)
Loans and borrowings	18	**(944)**	(888)
Obligations under leases	22	**(107)**	(108)
Total current liabilities		**(19,856)**	(20,434)
Non-current liabilities			
Loans and borrowings	18	**(162,711)**	(164,248)
Obligations under leases	22	**(1,707)**	(1,709)
Total non-current liabilities		**(164,418)**	(165,957)
Total liabilities		**(184,274)**	(186,391)
Net assets		**528,197**	509,283
Equity			
Share capital	20	**164,400**	164,400
Retained earnings		**364,466**	345,667
Other reserves		**(669)**	(784)
Total equity		**528,197**	509,283
Net asset value per share	23	**97p**	93p

These consolidated financial statements were approved by the Board of Directors on 26 May 2021 and signed on its behalf by:

Andrew Dewhirst
Director
26 May 2021

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Operating activities			
Operating profit		**41,795**	30,670
Adjustments for non-cash items	21	**(12,964)**	(2,295)
Interest received		**5**	9
Interest paid		**(7,515)**	(7,952)
Tax received		**56**	123
Increase in accounts receivable		**(1,983)**	(4,078)
Decrease in accounts payable and accruals		**(825)**	(2,936)
Cash inflows from operating activities		**18,569**	13,541
Investing activities			
Capital expenditure on investment properties	13	**(4,961)**	(8,861)
Disposal of investment properties		**3,928**	33,859
Purchase of tangible assets		**(268)**	(4)
Cash (outflows)/inflows from investing activities		**(1,301)**	24,994
Financing activities			
Borrowings repaid	18	**(1,258)**	(33,204)
Borrowings drawn	18	**–**	6,000
Financing costs	18	**(574)**	–
Issue of ordinary shares	20	**–**	7,137
Issue costs of ordinary shares		**–**	(186)
Purchase of shares held in trust	7	**(643)**	(844)
Dividends paid	10	**(15,002)**	(19,039)
Cash outflows from financing activities		**(17,477)**	(40,136)
Net decrease in cash and cash equivalents		**(209)**	(1,601)
Cash and cash equivalents at beginning of year		**23,567**	25,168
Cash and cash equivalents at end of year	16	**23,358**	23,567

Notes 1 to 27 form part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2021

1. General information

Picton Property Income Limited (the 'Company' and together with its subsidiaries the 'Group') was established on 15 September 2005 as a closed ended Guernsey domiciled investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2021 with comparatives for the year ended 31 March 2020.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis and adopt the historical cost basis, except for the revaluation of investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The financial statements, which give a true and fair view, are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and are in compliance with the Companies (Guernsey) Law, 2008.

The Directors have assessed whether the going concern basis remains appropriate for the preparation of the financial statements, including giving consideration to the continuing impact of the Covid-19 pandemic on the UK economy. They have reviewed the Group's principal and emerging risks, recent levels of rent collection, existing loan facilities, access to funding and liquidity position and then considered a number of scenarios around different levels of rent collection, (and the potential consequences on financial performance), asset values, capital projects and loan covenants. Under all of these scenarios the Group has sufficient resources to continue its operations, and remain within its loan covenants, for a period of at least 12 months from the date of these financial statements.

Based on their assessment and knowledge of the portfolio and market, the Directors have therefore continued to adopt the going concern basis in preparing the financial statements.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand, except when otherwise indicated.

New or amended standards issued

The accounting policies adopted are consistent with those of the previous financial period, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

- Business Combinations, Amendments to IFRS 3
- Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7
- Definition of Material, Amendments to IAS 1 and IAS 8

The adoption of these standards has had no material effect on the consolidated financial statements of the Group.

At the date of approval of these financial statements there are a number of new and amended standards in issue but not yet effective for the financial year ended 31 March 2021 and thus have not been applied by the Group.

- Interest Rate Benchmark Reform – Phase 2
- Onerous Contracts – Cost of fulfilling a Contract (Amendments to IAS 37)
- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Annual Improvements to IFRS Standards 2018-2020

The adoption of these new and amended standards, together with any other IFRSs or IFRIC interpretations that are not yet effective, are not expected to have a material impact on the financial statements of the Group.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Significant judgements and estimates

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 13.

The critical estimates and assumptions relate to the investment property and owner-occupied property valuations applied by the Group's independent valuer. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company at the reporting date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. These financial statements include the results of the subsidiaries disclosed in Note 12. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Fair value hierarchy

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

Investment properties

Freehold property held by the Group to earn income or for capital appreciation, or both, is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under head leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses and subsequently measured at fair value. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

The fair value of investment property generally involves consideration of:

- Market evidence on comparable transactions for similar properties;
- The actual current market for that type of property in that type of location at the reporting date and current market expectations;
- Rental income from leases and market expectations regarding possible future lease terms;
- Hypothetical sellers and buyers, who are reasonably informed about the current market and who are motivated, but not compelled, to transact in that market on an arm's length basis; and
- Investor expectations on matters such as future enhancement of rental income or market conditions.

Gains and losses arising from changes in fair value are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

An investment property is derecognised for accounting purposes upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statement of Comprehensive Income in the year the asset is derecognised. Investment properties are not depreciated.

The majority of the investment properties are charged by way of a first ranking mortgage as security for the loans made to the Group; see Note 18.

Property, plant and equipment

Owner-occupied property

Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred between the revaluation reserve and retained earnings as the property is utilised. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

2. Significant accounting policies continued

Plant and equipment

Plant and equipment is depreciated on a straight-line basis over the estimated useful lives of each item of plant and equipment. The estimated useful lives are between three and five years.

Leases

Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rent payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

Lease income arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee. Lease income is recognised as income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Premiums received on the surrender of leases are recorded as income immediately on surrender if there are no relevant conditions attached to the surrender.

Cash and cash equivalents

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities in three months or less and that are subject to an insignificant risk of change in value.

Income and expenses

Income and expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the end of the lease term and presented within accounts receivable. Lease incentives granted are recognised as a reduction of the total rental income, over the term of the lease. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

The income charged to occupiers for property service charges and the costs associated with such service charges are shown separately in Notes 3 and 4 to reflect that, notwithstanding this money is held on behalf of occupiers, the ultimate risk for paying and recovering these costs rests with the property owner.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

The fair value of the amounts payable to employees in respect of the Deferred Bonus Plan, when these are to be settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. Where the awards are equity settled, the fair value is recognised as an expense, with a corresponding increase in equity. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised under the category staff costs in the Consolidated Statement of Comprehensive Income.

The grant date fair value of awards to employees made under the Long-term Incentive Plan is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related non-market performance conditions at the vesting date. For share-based payment awards with market conditions, the grant date fair value of the share-based awards is measured to reflect such conditions and there is no adjustment between expected and actual outcomes.

The cost of the Company's shares held by the Employee Benefit Trust is deducted from equity in the Group Balance Sheet. Any shares held by the Trust are not included in the calculation of earnings or net assets per share.

Dividends
Dividends are recognised in the period in which they are declared.

Accounts receivable
Accounts receivable are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable accounts receivable. Bad debts are written off when identified.

Loans and borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised for accounting purposes, as well as through the amortisation process.

Assets classified as held for sale
Any investment properties on which contracts for sale have been exchanged but which had not completed at the period end are disclosed as properties held for sale. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Other assets and liabilities
Other assets and liabilities, including trade creditors and accruals, other creditors, and deferred rental income, which are not interest bearing are stated at their nominal value.

Share capital
Ordinary shares are classified as equity.

Revaluation reserve
Any surplus or deficit arising from the revaluation of owner-occupied property is taken to the revaluation reserve.

Taxation
The Group elected to be treated as a UK REIT with effect from 1 October 2018. The UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation and income tax. Gains on UK properties are also exempt from tax, provided they are not held for trading. The Group is otherwise subject to UK corporation tax.

As a REIT, the Company is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

Principles for the Consolidated Statement of Cash Flows
The Consolidated Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Consolidated Statement of Comprehensive Income and movements in the Consolidated Balance Sheet which have not resulted in cash income or expenditure in the related period.

The cash amounts in the Consolidated Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction.

3. Revenue from properties

	2021 £000	2020 £000
Rents receivable (adjusted for lease incentives)	**36,558**	37,780
Surrender premiums	**202**	603
Dilapidation receipts	**1,195**	471
Other income	**82**	81
Service charge income	**5,294**	6,729
	43,331	45,664

Rents receivable have been adjusted for lease incentives recognised of £2.0 million (2020: £1.3 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

4. Property expenses

	2021 £000	2020 £000
Property operating costs	**2,384**	2,293
Property void costs	**2,199**	3,005
Recoverable service charge costs	**5,294**	6,729
	9,877	12,027

5. Operating segments

The Board is responsible for setting the Group's strategy and business model. The key measure of performance used by the Board to assess the Group's performance is the total return of the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Consolidated Balance Sheet, assuming dividends are reinvested, the key performance measure is that prepared under IFRS. Therefore, no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 46 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2021 £000	2020 £000
Director and staff costs	**3,219**	3,273
Auditor's remuneration	**206**	191
Other administrative expenses	**1,963**	2,099
	5,388	5,563

Auditor's remuneration comprises:	2021 £000	2020 £000
Audit fees:		
Audit of Group financial statements	**92**	92
Audit of subsidiaries' financial statements	**82**	67
Audit-related fees:		
Review of half-year financial statements	**16**	16
	190	175
Non-audit fees:		
Additional controls testing	**16**	16
	16	16
	206	191

7. Director and staff costs

	2021 £000	2020 £000
Wages and salaries	**1,724**	1,688
Non-Executive Directors' fees	**250**	250
Social security costs	**358**	394
Other pension costs	**28**	45
Share-based payments – cash settled	**166**	473
Share-based payments – equity settled	**693**	423
	3,219	3,273

The emoluments of the Directors are set out in detail within the Remuneration Committee report, including the audited totals on page 90.

Employees participate in two share-based remuneration arrangements: the Deferred Bonus Plan and the Long-term Incentive Plan (the 'LTIP').

For all employees, a proportion of any discretionary annual bonus will be an award under the Deferred Bonus Plan.

With the exception of Executive Directors, awards are cash settled and vest after two years. The final value of awards is determined by the movement in the Company's share price and dividends paid over the vesting period. For Executive Directors, awards are equity settled and also vest after two years. On 29 June 2020 awards of 599,534 notional shares were made which vest in June 2022 (2020: 441,322 notional shares). The next awards are due to be made in June 2021 for vesting in June 2023.

The table below summarises the awards made under the Deferred Bonus Plan. Employees have the option to defer the vesting date of their awards for a maximum of seven years.

Vesting date	Units at 31 March 2019	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2020	Units granted in the year	Units cancelled in the year	Units redeemed in the year	**Units at 31 March 2021**
31 March 2020	564,604	–	(2,616)	(319,479)	242,509	–	–	(242,509)	**–**
19 June 2021	–	441,322	(2,415)	–	438,907	–	–	–	**438,907**
29 June 2022	–	–	–	–	–	599,534	–	–	**599,534**
	564,604	441,322	(5,031)	(319,479)	681,416	599,534	–	(242,509)	**1,038,441**

The Group also has a Long-term Incentive Plan for all employees which is equity settled. Awards are made annually and vest three years from the grant date. Vesting is conditional on three performance metrics measured over each three-year period. Awards to Executive Directors are also subject to a further two-year holding period. On 29 June 2020 awards for a maximum of 860,740 shares were granted to employees in respect of the three-year period ending on 31 March 2023. In the previous year, awards of 878,164 shares were made on 19 June 2019 for the period ending 31 March 2022.

The three performance metrics are:

- Total shareholder return (TSR) of Picton Property Income Limited, compared to a comparator group of similar listed companies;
- Total property return (TPR) of the property assets held within the Group, compared to the MSCI UK Quarterly Property Index; and
- Growth in EPRA earnings per share (EPS) of the Group.

The fair value of share grants is measured using a combination of a Monte Carlo model for the market conditions (TSR) and a Black-Scholes model for the non-market conditions (TPR and EPS). The fair value is recognised over the expected vesting period. For the awards made during this year and the previous year the main inputs and assumptions of the models, and the resulting fair values, are:

Assumptions		
Grant date	29 June 2020	19 June 2019
Share price at date of grant	68.4p	95.0p
Exercise price	Nil	Nil
Expected term	3 years	3 years
Risk-free rate – TSR condition	(0.05)%	0.84%
Share price volatility – TSR condition	24.2%	18.7%
Median volatility of comparator group – TSR condition	24.5%	18.1%
Correlation – TSR condition	37.8%	27.1%
TSR performance at grant date – TSR condition	(11.4)%	7.5%
Median TSR performance of comparator group at grant date – TSR condition	(10.7)%	3.0%
Fair value – TSR condition (Monte Carlo method)	26.7p	51.5p
Fair value – TPR condition (Black-Scholes model)	68.4p	95.0p
Fair value – EPS condition (Black-Scholes model)	68.4p	95.0p

The Trustee of the Company's Employee Benefit Trust acquired 958,000 ordinary shares during the year for £643,000 (2020: 954,000 shares for £844,000).

The Group employed ten members of staff at 31 March 2021 (2020: nine). The average number of people employed by the Group for the year ended 31 March 2021 was nine (2020: ten).

8. Interest paid

	2021 £000	2020 £000
Interest payable on loans	**7,574**	7,933
Interest on obligations under finance leases	**114**	114
Non-utilisation fees	**311**	248
	7,999	8,295

The loan arrangement costs incurred to 31 March 2021 are £4,590,000 (2020: £4,534,000). These are amortised over the duration of the loans with £531,000 amortised in the year ended 31 March 2021 and included in interest payable on loans (2020: £371,000).

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

9. Tax

The charge for the year is:

	2021 £000	2020 £000
Tax expense in year	–	–
Tax adjustment to provision for prior year	–	(124)
Total tax charge/(credit)	–	(124)

A reconciliation of the tax charge applicable to the results at the statutory tax rate to the charge for the year is as follows:

	2021 £000	2020 £000
Profit before taxation	**33,801**	22,384
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2020: 19%)	**6,422**	4,253
Less:		
UK REIT exemption on net income	**(3,813)**	(3,760)
Revaluation movement not taxable	**(2,444)**	168
Gains on disposal not taxable	**(165)**	(661)
Total tax charge	–	–

As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax, as are any gains it makes from the disposal of its properties, provided they are not held for trading. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that are also required to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the year and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future. Accordingly, deferred tax is no longer recognised on temporary differences relating to the property rental business.

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989.

10. Dividends

	2021 £000	2020 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2019: 0.875 pence	–	4,712
Interim dividend for the period ended 30 June 2019: 0.875 pence	–	4,781
Interim dividend for the period ended 30 September 2019: 0.875 pence	–	4,773
Interim dividend for the period ended 31 December 2019: 0.875 pence	–	4,773
Interim dividend for the period ended 31 March 2020: 0.625 pence	**3,409**	–
Interim dividend for the period ended 30 June 2020: 0.625 pence	**3,410**	–
Interim dividend for the period ended 30 September 2020: 0.7 pence	**3,819**	–
Interim dividend for the period ended 31 December 2020: 0.8 pence	**4,364**	–
	15,002	19,039

The interim dividend of 0.8 pence per ordinary share in respect of the period ended 31 March 2021 has not been recognised as a liability as it was declared after the year end. This dividend of £4,364,000 will be paid on 28 May 2021.

11. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares held by the Employee Benefit Trust for the year. The diluted number of shares also reflects the contingent shares to be issued under the Long-term Incentive Plan.

The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	2021	2020
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**33,801**	22,508
Weighted average number of ordinary shares for basic profit per share	**545,590,722**	544,192,866
Weighted average number of ordinary shares for diluted profit per share	**546,793,381**	546,227,914

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2021 and 31 March 2020:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate Trust (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton Capital Limited	England & Wales	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Financing UK Limited	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%

The results of the above entities are consolidated within the Group financial statements.

Picton UK Real Estate Trust (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the 'GPUT'). The GPUT holds a 99.9% interest in both Picton No 2 Limited Partnership and Picton No 3 Limited Partnership, the remaining balances are held by Picton (General Partner) No 2 Limited and Picton (General Partner) No 3 Limited respectively.

13. Investment properties

The following table provides a reconciliation of the opening and closing amounts of investment properties classified as Level 3 recorded at fair value.

	2021 £000	2020 £000
Fair value at start of year	**654,486**	676,102
Capital expenditure on investment properties	**4,961**	8,861
Disposals	**(3,928)**	(33,073)
Transfer to owner-occupied property	**(3,830)**	–
Realised gains on disposal	**868**	3,478
Unrealised movement on investment properties	**12,861**	(882)
Fair value at the end of the year	**665,418**	654,486
Historic cost at the end of the year	**625,359**	629,932

The fair value of investment properties reconciles to the appraised value as follows:

	2021 £000	2020 £000
Appraised value	**682,410**	664,615
Valuation of assets held under head leases	**1,313**	1,489
Owner-occupied property	**(3,830)**	–
Lease incentives held as debtors	**(14,475)**	(11,618)
Fair value at the end of the year	**665,418**	654,486

The investment properties were valued by independent valuers, CBRE Limited, Chartered Surveyors, as at 31 March 2021 and 31 March 2020 on the basis of fair value in accordance with the version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the Red Book) current as at the valuation date. The total fees earned by CBRE Limited from the Group are less than 5% of their total UK revenue.

The fair value of the Group's investment properties has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable market transactions on an arm's length basis.

In addition, the Group's investment properties are valued quarterly by CBRE Limited. The valuations are based on:

— Information provided by the Group including rents, lease terms, revenue and capital expenditure. Such information is derived from the Group's financial and property systems and is subject to the Group's overall control environment.

— Valuation models used by the valuers, including market-related assumptions are based on their professional judgement and market observation.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

13. Investment properties continued

The assumptions and valuation models used by the valuers, and supporting information, are reviewed by senior management and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with senior management, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including considering current market trends and conditions, and changes from previous quarters. The Board will also consider whether circumstances at specific investment properties, such as alternative uses and issues with occupational tenants, are appropriately reflected in the valuations. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

The outbreak of Covid-19, declared by the World Health Organization as a 'global pandemic' on 11 March 2020, has had a significant impact on many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel restrictions are in place and lockdowns have been applied both nationally and at a local level. Whilst restrictions are currently being eased in the UK, following the successful rollout of the vaccination programme local lockdowns may continue to be deployed as necessary and the emergence of significant further outbreaks or a 'further wave' is possible.

The pandemic and the measures taken to tackle Covid-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and properties on the market returning to levels where in general an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and in contrast to the year ended 31 March 2020, the valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

As at 31 March 2021 and 31 March 2020 all of the Group's properties, including owner-occupied property, are Level 3 in the fair value hierarchy as it involves use of significant judgement. There were no transfers between levels during the year and the prior year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2021			2020		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**245,385**	**360,740**	**76,285**	224,620	318,330	121,665
Area (sq ft, 000s)	**828**	**2,570**	**706**	808	2,570	829
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
– range	**£11.00 to £78.05**	**£3.75 to £21.18**	**£3.46 to £29.65**	£11.00 to £53.59	£3.54 to £19.58	£3.46 to £81.77
– weighted average	**£34.10**	**£10.39**	**£11.84**	£27.92	£9.79	£32.13
Net initial yield						
– range	**0.00% to 7.98%**	**2.79% to 7.63%**	**3.07% to 29.58%**	0.00% to 7.59%	–2.54% to 8.16%	–0.18% to 25.27%
– weighted average	**4.35%**	**4.38%**	**7.64%**	4.89%	4.63%	5.25%
Reversionary yield						
– range	**4.34% to 10.83%**	**3.68% to 8.59%**	**7.01% to 26.95%**	5.47% to 10.80%	4.46% to 10.17%	4.36% to 11.97%
– weighted average	**7.02%**	**4.97%**	**7.95%**	7.04%	5.40%	6.63%
True equivalent yield						
– range	**4.42% to 9.95%**	**3.73% to 8.39%**	**7.80% to 14.03%**	5.33% to 9.80%	4.39% to 9.65%	3.97% to 11.95%
– weighted average	**6.82%**	**5.02%**	**8.99%**	6.97%	5.40%	7.17%

The property valuations reflect the external valuers' assessment of the impact of Covid-19 at the valuation date. An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. We have reviewed the ranges used in assessing the impact of changes in unobservable inputs on the fair value of the Group's property portfolio and concluded these were still reasonable. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	**2021 Impact on valuation**	2020 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £36.3m**	Decrease of £29.3m
	Decrease of 50 basis points	**Increase of £45.4m**	Increase of £36.1m
Office	Increase of 50 basis points	**Decrease of £20.3m**	Decrease of £17.5m
	Decrease of 50 basis points	**Increase of £24.5m**	Increase of £20.5m
Retail and Leisure	Increase of 50 basis points	**Decrease of £5.2m**	Decrease of £10.9m
	Decrease of 50 basis points	**Increase of £6.7m**	Increase of £13.9m

14. Property, plant and equipment

Property, plant and equipment principally comprises the fair value of owner-occupied property. On 11 March 2021 the Group moved to premises at one of its own buildings. The fair value of these premises is based on the appraised value at 31 March 2021 which approximates to the fair value at 11 March 2021. Consequently there has been no transfer to revaluation reserve for the year.

15. Accounts receivable

	2021 £000	2020 £000
Tenant debtors (net of provisions for bad debts)	**4,326**	5,197
Lease incentives	**14,475**	11,618
Other debtors	**783**	786
	19,584	17,601

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate value of their carrying amounts.

Amounts are considered impaired using the lifetime expected credit loss method. Movement in the balance considered to be impaired has been included in the Consolidated Statement of Comprehensive Income. As at 31 March 2021, tenant debtors of £1,874,000 (2020: £1,676,000) were considered impaired and provided for.

16. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	**23,353**	23,564
Short-term deposits	**5**	3
	23,358	23,567

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of these assets approximate their fair value.

17. Accounts payable and accruals

	2021 £000	2020 £000
Accruals	**4,496**	5,263
Deferred rental income	**7,596**	7,817
VAT liability	**1,780**	1,685
Trade creditors	**596**	1,058
Other creditors	**4,337**	3,615
	18,805	19,438

18. Loans and borrowings

	Maturity	2021 £000	2020 £000
Current			
Aviva facility	–	**1,314**	1,258
Capitalised finance costs	–	**(370)**	(370)
		944	888
Non-current			
Canada Life facility	24 July 2027	**80,000**	80,000
Aviva facility	24 July 2032	**84,894**	86,207
Capitalised finance costs	–	**(2,183)**	(1,959)
		162,711	164,248
		163,655	165,136

18. Loans and borrowings continued

The following table provides a reconciliation of the movement in loans and borrowings to cash flows arising from financing activities.

	2021 £000	2020 £000
Balance as at 1 April	**165,136**	191,969
Changes from financing cash flows		
Proceeds from loans and borrowings	**–**	6,000
Repayment of loans and borrowings	**(1,258)**	(33,204)
Financing costs paid	**(574)**	–
	(1,832)	(27,204)
Other changes		
Amortisation of financing costs	**531**	371
Accrued financing costs	**(180)**	–
	351	371
Balance as at 31 March	**163,655**	165,136

The Group has an £80 million term loan facility with Canada Life Limited which matures in July 2027. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £330.0 million (2020: £307.5 million).

Additionally, the Group has a £95.3 million term loan facility with Aviva Commercial Finance Limited which matures in July 2032. The loan is for a term of 20 years and was fully drawn on 24 July 2012 with approximately one-third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.3 million in the year (2020: £1.2 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited, valued at £184.9 million (2020: £189.0 million).

In May 2020 the Group entered into a new £50 million revolving credit facility ('RCF') with National Westminster Bank Plc; this replaces the facilities held with Santander Corporate & Commercial Banking which have been cancelled. The new facility is for an initial term of three years with the option of two, one-year extensions. Currently undrawn, the RCF will incur interest at 150 basis points over LIBOR on drawn balances and an undrawn commitment fee of 60 basis points. The facility is secured on properties held by Picton UK Real Estate Trust (Property) Limited, valued at £131.7 million.

The fair value of the drawn loan facilities at 31 March 2021, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £187.2 million (2020: £197.0 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

There were no transfers between levels of the fair value hierarchy during the current or prior years.

The weighted average interest rate on the Group's borrowings as at 31 March 2021 was 4.2% (2020: 4.2%).

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of 11 properties with commitments outstanding at 31 March 2021 of approximately £6.7 million (2020: £4.5 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2021 (2020: £nil).

20. Share capital and other reserves

	2021 £000	2020 £000
Authorised:		
Unlimited number of ordinary shares of no par value	**–**	–
Issued and fully paid:		
547,605,596 ordinary shares of no par value (31 March 2020: 547,605,596)	**–**	–
Share premium	**164,400**	164,400

The Company has 547,605,596 ordinary shares in issue of no par value (2020: 547,605,596).

On 21 June 2019 the Company raised £7.1 million through the issue of 7,551,936 new ordinary share of no par value at 94.5 pence per share. No new ordinary shares were issued during the year ended 31 March 2021.

	2021 Number of shares	2020 Number of shares
Ordinary share capital	**547,605,596**	547,605,596
Number of shares held in Employee Benefit Trust	**(2,052,269)**	(2,103,683)
Number of ordinary shares	**545,553,327**	545,501,913

The fair value of awards made under the Long-term Incentive Plan is recognised in other reserves.

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. The Trustee of the Company's Employee Benefit Trust has waived its right to receive dividends on the 2,052,269 shares it holds but continues to hold the right to vote. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders. Any buy-back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy-backs will be at the absolute discretion of the Board.

21. Adjustment for non-cash movements in the cash flow statement

	2021 £000	2020 £000
Profit on disposal of investment properties	**(868)**	(3,478)
Movement in investment property valuation	**(12,861)**	882
Share-based provisions	**758**	292
Depreciation of tangible assets	**7**	9
	(12,964)	(2,295)

22. Obligations under leases

The Group has entered into a number of head leases in relation to its investment properties. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

Lease liabilities in respect of rents payable on leasehold properties were payable as follows:

	2021 £000	2020 £000
Future minimum payments due:		
Within one year	**116**	117
In the second to fifth years inclusive	**466**	466
After five years	**7,150**	7,266
	7,732	7,849
Less: finance charges allocated to future periods	**(5,918)**	(6,032)
Present value of minimum lease payments	**1,814**	1,817

The present value of minimum lease payments is analysed as follows:

	2021 £000	2020 £000
Current		
Within one year	**107**	108
	107	108
Non-current		
In the second to fifth years inclusive	**379**	388
After five years	**1,328**	1,321
	1,707	1,709
	1,814	1,817

22. Obligations under leases continued

Operating leases where the Group is lessor

The Group leases its investment properties under commercial property leases which are held as operating leases.

At the reporting date, the Group's future income based on the unexpired lease length was as follows (based on annual rentals):

	2021 £000	2020 £000
Within one year	**37,744**	38,296
One to two years	**33,954**	35,665
Two to three years	**32,008**	32,356
Three to four years	**27,937**	30,342
Four to five years	**23,235**	26,322
After five years	**91,294**	111,711
	246,172	274,692

These properties are measured under the fair value model as the properties are held to earn rentals. Commercial property leases typically have lease terms between five and ten years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

23. Net asset value

The net asset value per share calculation uses the number of shares in issue at the year-end and excludes the actual number of shares held by the Employee Benefit Trust at the year-end; see Note 20.

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under head leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

Categories of financial instruments

31 March 2021	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	**5,109**	**5,109**
Cash and cash equivalents	16	–	**23,358**	**23,358**
		–	**28,467**	**28,467**
Financial liabilities				
Loans and borrowings	18	–	**163,655**	**163,655**
Obligations under head leases	22	–	**1,814**	**1,814**
Creditors and accruals	17	–	**9,429**	**9,429**
		–	**174,898**	**174,898**

31 March 2020	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	5,983	5,983
Cash and cash equivalents	16	–	23,567	23,567
		–	29,550	29,550
Financial liabilities				
Loans and borrowings	18	–	165,136	165,136
Obligations under head leases	22	–	1,817	1,817
Creditors and accruals	17	–	9,936	9,936
		–	176,889	176,889

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the risk management framework applied by the Group. Senior management reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

Capital risk management

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimising its capital structure. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Group monitors capital on the basis of its gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 18, divided by the gross assets. There is a limit of 65% as set out in the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

At the reporting date the gearing ratios were as follows:

	2021 £000	2020 £000
Total borrowings	**166,208**	167,465
Gross assets	**712,471**	695,674
Gearing ratio (must not exceed 65%)	**23.3%**	24.1%

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements which will enable the Group to manage its borrowings in an orderly manner over the long-term. The Group also has a revolving credit facility which provides greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2021 £000	2020 £000
Total liabilities	**184,274**	186,391
Less: cash and cash equivalents	**(23,358)**	(23,567)
Net debt	**160,916**	162,824
Total equity	**528,197**	509,283
Net debt to equity ratio at end of year	**0.30**	0.32

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

25. Risk management continued

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

31 March 2021	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	**4,326**	**4,326**
Cash and cash equivalents	16	–	**23,358**	**23,358**
		–	**27,684**	**27,684**

31 March 2020	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	5,197	5,197
Cash and cash equivalents	16	–	23,567	23,567
		–	28,764	28,764

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Tenant debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of tenant debtors and, where appropriate, credit guarantees, or rent deposits are acquired. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's overall exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits that are reviewed regularly. The Group's main cash balances are held with National Westminster Bank plc ('NatWest'), Santander plc ('Santander'), Nationwide International Limited ('Nationwide') and The Royal Bank of Scotland plc ('RBS'). Insolvency or resolution of the bank holding cash balances may cause the Group's recovery of cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Santander, Nationwide and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2021 and at 31 March 2020 Standard & Poor's short-term credit rating for the Group's bankers was A-1.

There has been no change in the fair values of cash or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's liquidity risk is managed on an ongoing basis by senior management and monitored on a quarterly basis by the Board by maintaining adequate reserves and loan facilities, continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities for a period of at least 12 months.

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets/(liabilities), including interest that will accrue to maturity.

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	**23,358**	**–**	**–**	**23,358**
Debtors	**5,109**	**–**	**–**	**5,109**
Capitalised finance costs	**370**	**1,355**	**828**	**2,553**
Obligations under head leases	**(116)**	**(466)**	**(7,150)**	**(7,732)**
Fixed interest rate loans	**(8,332)**	**(33,329)**	**(184,927)**	**(226,588)**
Floating interest rate loans	**(300)**	**(346)**	**–**	**(646)**
Creditors and accruals	**(9,429)**	**–**	**–**	**(9,429)**
	10,660	**(32,786)**	**(191,249)**	**(213,375)**

31 March 2020	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	23,567	–	–	23,567
Debtors	5,983	–	–	5,983
Capitalised finance costs	370	912	1,047	2,329
Obligations under head leases	(117)	(466)	(7,266)	(7,849)
Fixed interest rate loans	(8,332)	(33,329)	(193,259)	(234,920)
Creditors and accruals	(9,936)	–	–	(9,936)
	11,535	(32,883)	(199,478)	(220,826)

Market risk

The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's operating performance will be adversely affected.

Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to occupiers, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of occupiers were unable to pay rent or its properties could not be rented on favourable terms. This risk has increased given the Covid-19 pandemic and the resultant effect on occupiers' ability to pay rent. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) is generally not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, senior management expects to mitigate the risk profile of the portfolio effectively. The Board continues to oversee the profile of the portfolio to ensure risks are managed.

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £34.1 million (2020: £33.2 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facility only. The Group's senior debt facilities have fixed interest rates over the terms of the loans and the revolving credit facility is currently undrawn, thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

Notes to the consolidated financial statements continued

for the year ended 31 March 2021

25. Risk management continued

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	**23,358**	**–**	**–**	**23,358**
Fixed				
Secured loan facilities	**(1,314)**	**(5,867)**	**(159,027)**	**(166,208)**
Obligations under leases	**(107)**	**(379)**	**(1,328)**	**(1,814)**
	21,937	**(6,246)**	**(160,355)**	**(144,664)**

31 March 2020	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	23,567	–	–	23,567
Fixed				
Secured loan facilities	(1,258)	(5,616)	(160,591)	(167,465)
Obligations under leases	(108)	(388)	(1,321)	(1,817)
	22,201	(6,004)	(161,912)	(145,715)

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore it is exposed to macroeconomic changes in the UK economy. Furthermore, the Group has around 350 occupiers so does not place reliance on a limited number of occupiers for its rental income, with the single largest occupier accounting for 5.0% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the Non-Executive Directors of the Company amounted to £250,000 (2020: £250,000). As at 31 March 2021 the Group owed £nil to the Non-Executive Directors (2020: £nil). The emoluments of the Executive Directors are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

27. Events after the balance sheet date

A dividend of £4,364,000 (0.8 pence per share) was approved by the Board on 29 April 2021 and was paid on 28 May 2021.

The revolving credit facility held with National Westminster Bank Plc has been extended by a further 12 months to May 2024.

Supplementary disclosures (unaudited)

for the year ended 31 March 2021

The European Public Real Estate Association (EPRA) is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practices Recommendations (BPR) to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at www.epra.com.

As at 31 March 2021 Picton has adopted the new EPRA net asset value (NAV) metrics: net reinvestment value (NRV); net tangible assets (NTA); and net disposal value (NDV). NAV metrics for the comparative periods have also been recalculated on the new basis to further aid comparison. The EPRA NAV set of metrics makes adjustments to the NAV per the IFRS financial statements to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a REIT under different scenarios. EPRA NTA is regarded as the most relevant metric for the business as this focuses on reflecting a company's tangible assets.

EPRA earnings per share

EPRA earnings represents the earnings from core operational activities, excluding investment property revaluations and gains/losses on asset disposals. It demonstrates the extent to which dividend payments are underpinned by recurring operational activities.

	2021 £000	2020 £000	2019 £000
Profit for the year after taxation	**33,801**	22,508	30,955
Exclude:			
Investment property valuation movement	**(12,861)**	882	(10,909)
Gains on disposal of investment properties	**(868)**	(3,478)	(379)
Debt prepayment fees	**–**	–	3,245
EPRA earnings	**20,072**	19,912	22,912
Weighted average number of shares in issue (000s)	**545,591**	544,193	538,816
EPRA earnings per share	**3.7p**	3.7p	4.3p

EPRA NRV per share

The EPRA net reinstatement value measure highlights the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. Since the aim of the metric is to also reflect what would be needed to recreate the Company through the investment market based on its current capital and financing structure, related costs such as real estate transfer taxes should be included.

	2021 £000	2020 £000	2019 £000
Balance Sheet net assets	**528,197**	509,283	499,415
Purchasers' costs	**46,029**	44,847	46,771
Fair value of debt	**–**	–	–
Deferred tax	**–**	–	–
EPRA NRV	**574,226**	554,130	546,186
Shares in issue (000s)	**545,553**	545,502	538,512
EPRA NRV per share	**105p**	102p	101p

EPRA NTA per share

The EPRA net tangible assets calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.

	2021 £000	2020 £000	2019 £000
Balance Sheet net assets	**528,197**	509,283	499,415
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NTA	**528,197**	509,283	499,415
Shares in issue (000s)	**545,553**	545,502	538,512
EPRA NTA per share	**97p**	93p	93p

Additional Information

Supplementary disclosures (unaudited) continued

for the year ended 31 March 2021

EPRA NDV per share

The EPRA net disposal value shows the impact to shareholder value if company assets are sold and/or liabilities are not held until maturity.

	2021 £000	2020 £000	2019 £000
Balance Sheet net assets	**528,197**	509,283	499,415
Fair value of debt	**(21,012)**	(29,569)	(24,811)
EPRA NDV	**507,185**	479,714	474,604
Shares in issue (000s)	**545,553**	545,502	538,512
EPRA NDV per share	**93p**	88p	88p

EPRA net initial yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties.

	2021 £000	2020 £000	2019 £000
Investment property valuation	**682,410**	664,615	685,335
Allowance for estimated purchasers' costs	**46,029**	44,847	46,771
Gross up property portfolio valuation	**728,439**	709,462	732,106
Annualised cash passing rental income	**36,504**	36,236	37,699
Property outgoings	**(1,860)**	(2,017)	(1,896)
Annualised net rents	**34,644**	34,219	35,803
EPRA net initial yield	**4.8%**	4.8%	4.9%

EPRA 'topped-up' net initial yield

The EPRA "topped-up" NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2021 £000	2020 £000	2019 £000
EPRA NIY annualised net rents	**34,644**	34,219	35,803
Annualised cash rent that will apply at expiry of lease incentives	**5,411**	3,910	2,739
Topped-up annualised net rents	**40,055**	38,129	38,542
EPRA 'topped-up' NIY	**5.5%**	5.4%	5.3%

EPRA vacancy rate

EPRA vacancy rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage.

	2021 £000	2020 £000	2019 £000
Annualised potential rental value of vacant premises	**3,980**	5,179	4,828
Annualised potential rental value for the complete property portfolio	**45,357**	45,224	46,839
EPRA vacancy rate	**8.8%**	11.5%	10.3%

EPRA cost ratio

EPRA cost ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2021 £000	2020 £000	2019 £000
Property operating costs	**2,384**	2,293	2,342
Property void costs	**2,199**	3,005	1,373
Administrative expenses	**5,388**	5,563	5,842
Less:			
Ground rent costs	**(207)**	(259)	(256)
EPRA costs (including direct vacancy costs)	**9,764**	10,602	9,301
Property void costs	**(2,199)**	(3,005)	(1,373)
EPRA costs (excluding direct vacancy costs)	**7,565**	7,597	7,928
Gross rental income	**36,558**	37,780	40,942
Less ground rent costs	**(207)**	(259)	(256)
Gross rental income	**36,351**	37,521	40,686
EPRA cost ratio (including direct vacancy costs)	**26.9%**	28.3%	22.9%
EPRA cost ratio (excluding direct vacancy costs)	**20.8%**	20.2%	19.5%

Capital expenditure

The table below sets out the capital expenditure incurred over the financial year, in accordance with EPRA Best Practices Recommendations.

	2021 £000	2020 £000
Acquisitions	**–**	–
Development	**–**	–
Like-for-like portfolio	**4,961**	8,861
Other	**–**	–
Total capital expenditure	**4,961**	8,861

Like-for-like rental growth

The table below sets out the like-for-like rental growth of the portfolio, by sector, in accordance with EPRA Best Practices Recommendations.

	Offices		Industrial		Retail and Leisure		Total	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Like-for-like rental income	**13,720**	12,894	**16,254**	15,738	**6,303**	7,589	**36,277**	36,221
Properties acquired	**–**	–	**–**	–	**–**	–	**–**	–
Properties sold	**(1)**	534	**–**	625	**282**	400	**281**	1,559
	13,719	13,428	**16,254**	16,363	**6,585**	7,989	**36,558**	37,780

Supplementary disclosures (unaudited) continued

for the year ended 31 March 2021

Loan to value

The loan to value (LTV) is calculated by taking the Group's total borrowings, net of cash, as a percentage of the total portfolio value.

	2021 £000	2020 £000	2019 £000
Total borrowings	**166,207**	167,465	194,669
Less:			
Cash and cash equivalents	**(23,358)**	(23,567)	(25,168)
Total net borrowings	**142,849**	143,898	169,501
Investment property valuation	**682,410**	664,615	685,335
Loan to value	**20.9%**	21.7%	24.7%

Cost ratio

The cost ratio is based on historical information and provides shareholders with an indication of the likely level of cost of managing the Group. The cost ratio uses the annual recurring administrative expenses as a percentage of the average net asset value over the period.

	2021 £000	2020 £000	2019 £000
Administrative expenses	**5,388**	5,563	5,842
Less:			
REIT conversion and restructuring costs	**–**	–	(215)
Recurring administrative expenses	**5,388**	5,563	5,627
Average net asset value over the year	**514,574**	511,868	497,304
Cost ratio	**1.0%**	1.1%	1.1%

Property portfolio

Properties valued in excess of £60 million
- Parkbury Industrial Estate, Radlett, Herts.

Properties valued between £50 million and £60 million
- River Way Industrial Estate, River Way, Harlow, Essex

Properties valued between £30 million and £40 million
- Angel Gate, City Road, London EC1
- Stanford Building, Long Acre, London WC2

Properties valued between £20 million and £30 million
- Datapoint, Cody Road, London E16
- Tower Wharf, Cheese Lane, Bristol
- Express Business Park, Shipton Way, Rushden, Northants.
- 50 Farringdon Road, London EC1
- Lyon Business Park, Barking, Essex
- Colchester Business Park, The Crescent, Colchester, Essex
- 30 & 50 Pembroke Court, Chatham, Kent

Properties valued between £10 million and £20 million
- Sundon Business Park, Dencora Way, Luton, Beds.
- Metro, Salford Quays, Manchester
- Grantham Book Services, Trent Road, Grantham, Lincs.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- Nonsuch Industrial Estate, Kiln Lane, Epsom, Surrey
- 180 West George Street, Glasgow
- 401 Grafton Gate East, Milton Keynes, Bucks.
- Vigo 250, Birtley Road, Washington, Tyne and Wear
- B&Q, Queens Road, Sheffield
- Parc Tawe North Retail Park, Link Road, Swansea
- Gloucester Retail Park, Eastern Avenue, Gloucester

Properties valued between £5 million and £10 million
- Easter Court, Europa Boulevard, Warrington
- Units 1 & 2, Kettlestring Lane, York
- Swiftbox, Haynes Way, Rugby, Warwickshire
- Units 1 & 2, Western Industrial Estate, Downmill Road, Bracknell, Berks.
- Trident House, Victoria Street, St Albans, Herts.
- Queens House, St Vincent Place, Glasgow
- Angouleme Retail Park, George Street, Bury, Greater Manchester
- Atlas House, Third Avenue, Marlow, Bucks.
- Thistle Express, The Mall, Luton, Beds.
- Longcross, Newport Road, Cardiff
- Sentinel House, Harvest Crescent, Fleet, Hants.

Properties valued under £5 million
- Regency Wharf, Broad Street, Birmingham
- Crown & Mitre Complex, English Street, Carlisle, Cumbria
- Scots Corner, High Street, Kings Heath, Birmingham
- Waterside House, Kirkstall Road, Leeds
- 53-57 Broadmead, Bristol
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- 78-80 Briggate, Leeds
- 17-19 Fishergate, Preston, Lancs.
- Magnet Trade Centre, 6 Kingstreet Lane, Winnersh, Reading
- 72-78 Murraygate, Dundee
- 7-9 Warren Street, Stockport
- 6-12 Parliament Row, Hanley, Staffs.
- 18-28 Victoria Lane, Huddersfield, West Yorks.

Additional Information

Five year financial summary

	2021	2020	2019	2018	2017
Income statements					
Net property income	**33.5**	33.6	38.3	38.5	42.3
Administrative expenses	**(5.4)**	(5.6)	(5.6)	(5.3)	(5.0)
Exceptional costs	**–**	–	(0.2)	(0.3)	(0.2)
	28.1	28.0	32.5	32.9	37.1
Net finance costs	**(8.0)**	(8.2)	(9.1)	(9.7)	(10.8)
Income profit before tax	**20.1**	19.8	23.4	23.2	26.3
Tax	**–**	0.1	(0.5)	(0.5)	(0.5)
Income profit	**20.1**	19.9	22.9	22.7	25.8
Property gains and losses	**13.7**	2.6	11.3	41.5	17.0
Debt prepayment fee	**–**	–	(3.2)	–	–
Profit/loss after tax	**33.8**	22.5	31.0	64.2	42.8
Dividends paid	**15.0**	19.0	18.9	18.5	18.0

	2021	2020	2019	2018	2017
Balance sheets					
Investment properties	**665.4**	654.5	676.1	670.7	615.2
Borrowings	**(166.2)**	(167.5)	(194.7)	(214.0)	(204.6)
Other assets and liabilities	**29.0**	22.3	18.0	30.7	31.3
Net assets	**528.2**	509.3	499.4	487.4	441.9
Net asset value per share (pence)	**97**	93	93	90	82
EPRA net tangible asset per share (pence)	**97**	93	93	90	82
Earnings per share (pence)	**6.2**	4.1	5.7	11.9	7.9
Dividends per share (pence)	**2.8**	3.5	3.5	3.4	3.3
Dividend cover (%)	**134**	105	122	122	144
Share price (pence)	**85.8**	89.0	89.2	84.3	83.8

All figures are in £ million unless otherwise stated

Glossary

Annual rental income	Cash rents passing at the Balance Sheet date.
Contracted rent	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
Cost ratio	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period.
DTR	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
Dividend cover	EPRA earnings divided by dividends paid.
Earnings per share (EPS)	Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.
EPC	Energy performance certificate.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
Estimated rental value (ERV)	The external valuers' 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.
Fair value	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 the proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Initial yield	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
Lease incentives	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 incentives is amortised through the Income Statement on a straight-line basis until the lease expiry.
MSCI	An organisation supplying independent market indices and portfolio benchmarks to the property industry.
NAV	Net asset value is the equity attributable to shareholders calculated under IFRS.
Over-rented	Space where the passing rent is above the ERV.
Property income return	The ungeared income return of the portfolio as calculated by MSCI.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
TCFD	Task Force on Climate-related Financial Disclosures.
Total property return	Combined income and capital return from the property portfolio.
Total return	The change in the Group's net asset value, in accordance with IFRS, plus dividends paid.
Total shareholder return	Measures the change in share price over the year plus dividends paid.
Weighted average debt maturity	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
Weighted average interest rate	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
Weighted average lease term	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

Additional Information
Financial calendar

Annual results announced	27 May 2021
Annual results posted to shareholders	June 2021
June 2021 NAV announcement	July 2021 (provisional)
Annual General Meeting	November 2021 (provisional)
2021 half-year results to be announced	November 2021 (provisional)
December 2021 NAV announcement	January 2022 (provisional)
Dividend payment dates	August/November/February/May

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Website
The Company has a corporate website which contains more detailed information about the Group.
www.picton.co.uk

Notes

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