Occupier focused, Opportunity led.

Picton Property Income Limited
Annual Report 2020

Welcome to our 2020 Annual Report

Driven by our occupier focused, opportunity led approach, we acquire, create and manage buildings for a wide range of commercial occupiers.

By applying insight, agility and a personalised service, we provide attractive, well-located spaces to help our occupiers succeed.

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Visit our website
www.picton.co.uk

Investment Rationale

1

Opportunity for income and capital growth.

As an asset class, UK commercial property is known for its stable income characteristics, which over the long-term have been shown to deliver over 70% of its total return. Property is also considered cyclical, correlated with economic growth, and there is the potential for capital appreciation as well as income growth.

2

Diversified exposure to the UK commercial property market.

Our diversified property portfolio consists of 47 assets in the industrial, office, retail and leisure sectors, generating income from around 350 occupiers across a wide range of businesses.

3

Established a track record of outperformance.

We are total return driven with an income bias and have outperformed the MSCI UK Quarterly Property Index delivering upper quartile returns over one, three, five and ten years.

4

Our occupier focused, opportunity led approach ensures we actively manage our assets, maintain high occupancy and create the space our occupiers need.

Our asset management team has a hands-on approach and maintains a close relationship with our occupiers. Our experience, knowledge and personalised service ensures we provide attractive, well-located spaces to help our occupiers' businesses succeed.

5

Our business model ensures we have the flexibility to adapt to changing market conditions.

Our in-depth understanding of the UK commercial property market enables us to identify and source value across different sectors and geographies and reposition our portfolio through the property cycle. We operate a covered dividend policy, allowing us to invest back into the portfolio.

6

Our responsible approach to business.

We have a responsible and ethical approach to business and sustainability is embedded in our corporate strategy.

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

Highlights

Financial highlights

- Profit after tax of £22.5 million
- Net assets of £509 million, or 93p per share
- Total return of 4.5%
- Earnings per share of 4.1p
- Dividend cover of 105%

Strengthened balance sheet

- 14% reduction in total debt outstanding to £167.5 million
- Loan to value ratio reduced to 22%
- Raised £7 million of non-dilutive equity
- New £50 million revolving credit facility completed post year end
- Further tax savings as result of REIT regime

Outperforming property portfolio

- Total property return of 5.3%, outperforming MSCI UK Quarterly Property Index of -0.5%
- Portfolio top quartile outperformance against MSCI over one, three, five and ten years
- Like-for-like valuation increase of 1.4%
- Like-for-like rental income increase of 1.2%
- Like-for-like estimated rental value increase of 1.3%
- Occupancy at 89%
- 104 asset management transactions completed including:
  - 20 rent reviews – 10% ahead of ERV
  - 31 lease renewals or regears – 12% ahead of ERV
  - 35 lettings or agreements to lease – 2% ahead of ERV
- Two asset disposals for £34.1 million, 15% ahead of March 2019 valuations
- £9 million invested into refurbishment projects

Responsible stewardship

- Embedded sustainability into corporate strategy, completing materiality assessment review
- Improved portfolio EPC ratings
- Incorporated energy efficiency measures into building refurbishments
- Further developed occupier and employee engagement programmes

93p	£509m	£665m	4.5%	3.6%
NAV per share (2019: 93p) (2018: 90p)	**Net assets** (2019: £499m) (2018: £487m)	**Property valuation** (2019: £685m) (2018: £684m)	**Total return** (2019: 6.5%) (2018: 14.9%)	**Total shareholder return** (2019: 10.1%) (2018: 4.8%)
£23m	4.1p	3.5p	105%	
Profit after tax (2019: £31m) (2018: £64m)	**Earnings per share** (2019: 5.7p) (2018: 11.9p)	**Dividends per share** (2019: 3.5p) (2018: 3.4p)	**Dividend cover** (2019: 122%) (2018: 122%)	

EPRA measures

93p	88p	£19.9m	3.7p	11.5%
EPRA NAV per share (2019: 93p) (2018: 90p)	**EPRA NNNAV per share** (2019: 88p) (2018: 87p)	**EPRA earnings** (2019: £22.9m) (2018: £22.6m)	**EPRA earnings per share** (2019: 4.3p) (2018: 4.2p)	**EPRA vacancy rate** (2019: 10.3%) (2018: 4.2%)
4.8%	5.4%	28.3%	20.2%	
EPRA net initial yield (2019: 4.9%) (2018: 5.5%)	**EPRA 'topped-up' net initial yield** (2019: 5.3%) (2018: 5.9%)	**EPRA cost ratio**[1] (2019: 22.9%) (2018: 23.7%)	**EPRA cost ratio**[2] (2019: 19.5%) (2018: 19.2%)	

1 Including direct vacancy costs
2 Excluding direct vacancy costs

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, Picton fully supports the EPRA Best Practices Recommendations which recognise the key performance measures, as detailed above. We have also highlighted other specific EPRA metrics throughout the Report.

Read more on pages **112–114**

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, as stated above.

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, EPC ratings and employee satisfaction. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

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 47 assets with over 80% invested in the industrial and office sectors.

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.

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.

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 and 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 proactivity.

Industrial weighting

48%

South East	35.4%
Rest of UK	12.5%

Read more on pages 32-33

Office weighting

34%

South East	17.4%
Rest of UK	12.2%
City & West End	4.2%

Read more on pages 34-35

Retail and Leisure weighting

18%

Retail Warehouse	7.3%
High Street South East	5.2%
High Street Rest of UK	4.1%
Leisure	1.7%

Read more on pages 36-37

Corporate statistics

£509m
Net assets

3.9%
Dividend yield

£485m
Market capitalisation

1.1%
Cost ratio

£168m
Borrowings

22%
Loan to value

Portfolio statistics

47
Number of assets

4.2m sq ft
Area

£665m
Value

89%
Occupancy

4.9%
Net initial yield

6.4%
Reversionary yield

Top five occupiers

Occupier	Contracted rent (£m)	% of total contracted rent
Public sector	1.7	4.3
Belkin Limited	1.7	4.2
B&Q Plc	1.2	3.1
The Random House Group Limited	1.2	3.0
Snorkel Europe Limited	1.1	2.8
	6.9	**17.4**

Top five assets

Assets	Property type	Capital value (£m)
Parkbury Industrial Estate, Radlett, Herts.	Industrial	>40
River Way Industrial Estate, Harlow, Essex	Industrial	>40
Angel Gate, City Road, London EC1	Office	30–40
Stanford Building, Long Acre, London WC2	Retail	30–40
Tower Wharf, Cheese Lane, Bristol	Office	20–30

Awards

Citywire Investment Trust Awards – Winner 2019, 2018, 2017

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

Moneywise Investment Trust Awards – 2018

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

MSCI UK Property Investment Awards – 2018

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

I am pleased to report another successful year, delivering a profit after tax of £23 million, despite the uncertain political and economic backdrop created by Brexit and the effects of the Covid-19 pandemic.

Further to the actions taken last year, we are in a strong position with low gearing of 22%, a healthy balance sheet and over 80% of the portfolio invested in the industrial and office sectors which have been less impacted by the lockdown.

Throughout the year we have been operating in a UK property market characterised by fewer investment transactions and an occupational market where activity has slowed. Many companies were already in 'wait and see' mode awaiting an outcome on Brexit, and have now moved into temporary lockdown as a result of Covid-19, although Government support has helped mitigate a very difficult situation.

Covid-19 impact and response

The defensive positioning of the Company over the last 12 months has meant that we are in a relatively strong position and able to withstand the unprecedented shock of the Covid-19 pandemic. We have the lowest loan to value ratio since the inception of the business, as well as fully undrawn loan facilities totalling £50 million.

Our short-term targets are focused around reducing the impact on our business and working with our occupiers to get through this difficult situation. We recognise both the short and longer-term effects on the business and the importance of adapting our strategy to reflect the changing habits and needs of our occupiers. We have achieved good rent collection figures compared to the market and have been working with occupiers as required to help them through this crisis. Recognising the two components of property returns are not only income but capital performance, we believe this is also the best approach to achieving long-term value for shareholders.

As the lockdown starts to gradually ease, our attention is turning to the reoccupation of our buildings, the restarting of refurbishment projects and leasing space, ensuring all of these activities are managed safely.

Performance

The property portfolio has again delivered upper quartile performance against the MSCI UK Quarterly Property Index over the year. Likewise, our shareholder total return for the period was in the upper quartile range compared to our peers.

Our total return was 4.5% over the year. Whilst this is relatively modest for Picton, it compares favourably to the negative market return, as measured by MSCI.

EPRA earnings were lower for the year, which is in part a reflection of the operating environment that has hindered progress with our pipeline of lettings and refurbishments. Equally, debt reduction through asset sales to protect the longer-term income profile has also had a short-term impact on earnings.

We are cognisant of the discount to net asset value that has emerged since the year end and believe that there is a clear disconnect between the performance of the Group and the share price. A focus of the Board will be to ensure that we reduce this discount over the coming year.

Purpose and strategy

During the year, the Board has reviewed the purpose and strategy of the Group to ensure Picton, as a UK REIT, continues to deliver attractive income and capital returns to its shareholders over the long-term. As a result we have redefined our purpose as:

"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."

We have in place three distinct strategic pillars: Portfolio Performance, Operational Excellence and Acting Responsibly. These will ensure we are able to deliver on our purpose.

I think it is also important to highlight the progress we have been making on sustainability and we have this year formally embedded this into our corporate strategy.

Further details of this and our business model are included on pages 8 to 9.

Property portfolio

The outperformance of our property portfolio was driven by several factors. It is well positioned with over 80% in the better performing industrial and office sectors. The best performing subsector according to MSCI was South East industrial, which is where over 35% of our portfolio is invested.

Key themes during the year were reinvestment into the portfolio and upgrading of assets. This activity has delivered letting successes and retained occupiers across the portfolio. We have achieved considerable success working with existing occupiers to extend income. During the year we saw a significant number of transactions aimed at mitigating income risk due to materialise in 2020/21. This included income with four of our largest occupiers.

We made two disposals at a healthy premium to the March 2019 valuation, which enabled us to capture upside that had been created through asset management. There were no acquisitions during the year.

While we have grown like-for-like passing rent over the period, we would have liked to make further progress and have two key voids to fill: one in Rugby, where the refurbishment completed in February, and another at Stanford Building in Covent Garden, where the refurbishment has been delayed due to Government lockdown restrictions. These, along with other vacancies, provide scope for us to increase occupancy and income going forwards.

Capital structure

Our strategic approach in recent years has meant that we have entered the Covid-19 crisis in a position of strength.

We further reduced our loan to value ratio over the course of the year through a combination of asset sales, debt repayment and a small non-dilutive equity raise last June.

Since the year end, we have completed a new single revolving credit facility for an initial three-year term, replacing two existing facilities that were due to expire in 2021. This gives the Company access to up to £50 million of undrawn facilities, providing us with a lower cost of debt and even greater headroom and flexibility.

Dividends

We are acutely aware that the provision of income is important to investors, so our recent decision to reduce the dividend, even if temporary, was not taken lightly. While Picton is in a much better place than most of its peers, we are not immune to the impact that Covid-19 is having on our occupiers.

The additional flexibility that this extra headroom provides will enable us to support our occupiers where appropriate, and will help us to protect as far as possible both income and capital over the longer-term. This was a prudent decision taken in the long-term interest of all of our stakeholders.

Governance and Board composition

I had expected to write this report as Chairman for the last time as I was due to retire from the Board in June of this year. Covid-19 has created all sorts of unforeseen circumstances and my proposed successor, Nicholas Wiles, has had to step down from the Board following his recent and unexpected appointment as Chief Executive at PayPoint Plc, having previously been Chairman. We have recommenced the process to find a suitable successor, but it is vitally important in these times that continuity is provided, so at the request of the Board I have agreed and confirmed my commitment to remain in position until a new Chair is in place.

We have also started the process to appoint a successor for Roger Lewis, currently Chair of the Property Valuation Committee, and we hope to be able to make a further announcement in that regard shortly.

Outlook

Whilst our focus remains very much around short-term issues and mitigating the impact of Covid-19, we recognise that we must also be thinking strategically about the changing long-term trends and demand for commercial property. We think these recent events have accelerated embedded trends in several areas, including online retail, flexible working, digital and technological disruption to name but a few. In addition, a growing sense of environmental impact and the need for change has been self-evident in lockdown. We had already been considering disruptive trends and whilst we believe the portfolio is well positioned, this situation is evolving and continues to be kept under constant review. I believe our purpose, strategy and business model ensure we are well placed to respond to both the challenges and opportunities that lie ahead.

Nicholas Thompson
Chairman

22 June 2020

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
14–15

Shareholders

Occupiers

Communities

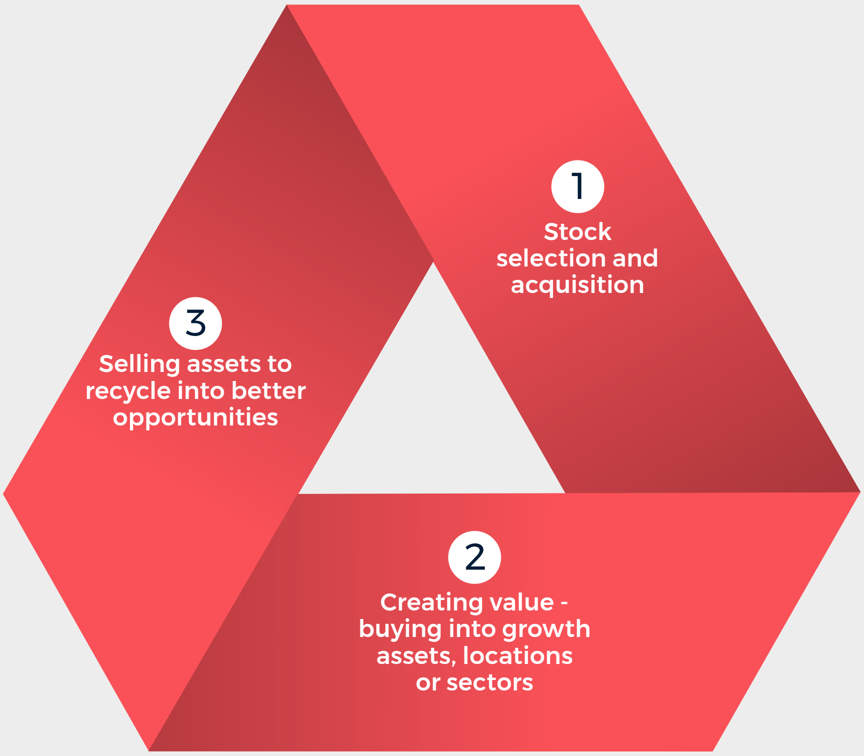
Our people

Environment

For more detailed information on our stakeholders, see our Section 172 statement

Read more on pages
52–53

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



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.

Responsibility

We have a responsible and ethical approach to business and sustainability is embedded in 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.

1

Stock selection and acquisition

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

2

Creating value through proactive asset management - buying into growth assets, locations or sectors

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.

3

Selling assets to recycle into better opportunities

We identify opportunities at the right point in the property cycle to dispose of assets to allow reinvestment.

Read more on pages 19-23

Our Marketplace

Economic backdrop

For much of the year Brexit weighed heavily on the UK economy.

The lack of clarity surrounding the nature and timing of the UK's exit from the European Union was responsible for widespread political and economic uncertainty. Weaker productivity growth came as a result of reduced business investment and the redirection of resources to prepare for possible Brexit outcomes.

Despite Brexit, economic indicators remained reasonably robust. In 2019 Gross Domestic Product (GDP) grew by 1.4%. To put this into an international context, the G7 Major Advanced Economies had an average GDP growth of 1.6% per annum for the group, with the UK in third place behind the USA and Canada.

For the three months leading up to March 2020, the UK's unemployment rate was at a near record low of 3.9%, and annual growth in average weekly earnings was 2.4%. In real terms, annual pay growth has been positive since February 2018. The 12-month Consumer Price Index (CPI) was 1.3% in December 2019, rising to 1.5% in March 2020.

Today, the Covid-19 global pandemic has changed priorities and the economic outlook dramatically. Despite the UK easing the lockdown, social distancing will change habits for some months to come, and uncertainty and volatility will continue to impact the economy with potentially long-lasting consequences.

Recent data shows the dramatic impact the lockdown is having on the UK economy, with GDP recording its weakest ever monthly decline at -20.4% in April.

Although the UK will be in recession in the second quarter of 2020 as the lockdown eases, the magnitude of the economic impact and speed of recovery are not easily gauged. The Office for Budget Responsibility has forecast an annual decline of 12.8% for 2020, with unemployment rising from 4.0% to 7.3% in the final three months of the year.

In response to the pandemic, the Bank of England dropped the bank rate twice in March, from 0.75% to 0.25% and then again to 0.1%. The extent to which these low interest rates can support consumer spending and jobs in the coming months is yet to be determined.

UK property market

According to the MSCI UK Quarterly Property Index, commercial property delivered a total return of -0.5% for the year ended March 2020. The negative total return is attributable to the downturn experienced in the final quarter ending March 2020. Until then, quarterly total returns were positive.

The reduction relative to last year was driven by capital value falls of -4.8% and an income return of 4.5%. Capital growth was negative quarter-on-quarter but worsened considerably in the three months to March 2020. By comparison, for the year to March 2019, capital growth was 0.1% and the income return was 4.4%.

Industrial was the top performing sector for the year to March 2020, showing good signs of rental and capital growth. The industrial sector 12-month total return was 5.7%, comprising 1.3% capital growth and 4.3% income return. Industrial ERV growth for the period was 2.7%, with a range of 1.7% to 4.2% within subsectors. Capital growth ranged from -0.5% to 4.2% within subsectors. Equivalent yields for industrial property now stand at 5.3%.

The office sector produced a total return of 3.3% for the year to March 2020, comprising -0.5% capital growth and 3.8% income return. Whilst capital values showed a decline in the final quarter, for the nine months to December 2019 MSCI capital growth for All Offices was 0.4%. For the year to March 2020, central London and the South East office markets were the only subsectors to produce positive capital growth. All Office annual rental growth was 1.4%, ranging from 0.5% to 2.3% within subsectors. The range of capital growth by subsector was from -3.2% to 1.8%. Equivalent yields for office property now stand at 5.6%.

It was a very difficult year for the retail sector, with challenging trading conditions leading to a high number of retail failures. The situation has been significantly impacted by the Covid-19 lockdown starting in March 2020. The retail sector produced a total return of -9.8% for the year to March 2020. This comprised capital growth of -14.5% and income return of 5.4%. Rental values fell -5.7% over the period and were negative across all subsectors, ranging from -8.2% to -1.7%. Retail subsector capital growth ranged from -22.6% to -1.0%. Equivalent yields for retail property now stand at 6.4%.

The impact of the Covid-19 pandemic is not fully reflected in the above numbers. The MSCI UK Monthly Property Index showed for the two-month April – May 2020 period, that overall capital values for All Property have declined -2.9% and ERVs are down -0.6%.

For the same period, capital values in the industrial sector saw a decline of -1.6% and ERVs grew by 0.1%. In the office sector capital values declined -2.1% and ERVs -0.1%. The retail sector is the worst affected with capital values showing a decline of -5.0% and ERVs down -2.0%.

According to Property Data, the total investment volume for the year to March 2020 was £56.5 billion, an 8.3% decrease from the year to March 2019. The volume of investment by overseas investors in the year to March 2020 was £30.5 billion, accounting for 53.9% of all transactions. Illustrating the liquidity issues within the retail sector, it had investment transactions of just £5.0 billion, accounting for only 8.9% of all transactions.

During the Covid-19 lockdown it has been extremely difficult to buy or sell property and the impact on investment volumes and pricing is yet to be fully realised. Despite lowering investment returns available elsewhere, the risk premium attached to property looks set to increase, reflecting greater income risk in the short-term.

Market drivers and impacts

Market driver	Impact
Covid-19 The lockdown and social distancing measures imposed by the UK Government to curb the spread of Covid-19 have resulted in rapid deterioration of the UK economic and property market outlook. In the longer-term, the unwinding of the lockdown and so called 'new normal' way in which we live will have implications for property investors and occupiers.	— A recession is imminent, resulting in sharp deterioration in consumer and business confidence. — Deglobalisation of the travel industry, supply chains and the movement of goods and services. — Occupier reassessment of building requirements and expansion plans. — Increased reliance on e-commerce and logistics operators to the detriment of bricks and mortar retail. — The retail sector is bolstered by the more positive outlook for supermarkets. — Expect lasting impact on the leisure and restaurant industries; a reduction in travel and increase in time spent online.
Economy The media spotlight is no longer on Brexit, but key issues remain unresolved. The UK left the European Union on 31 January 2020 and is now in a transition period under the withdrawal agreement until the end of the year. Negotiations for a free trade agreement are underway.	— The Centre for European Reform estimate the impact on potential output to mid-2018 was a reduction of 2.5% as a result of the Brexit vote. — Clarity on the specifics of the trading agreement will begin to assuage this. — As well as cross sector problems such as workforce shortages, business sectors each face their own specific Brexit challenges.
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. Almost all subsectors in the MSCI UK Quarterly Property Index are currently experiencing declining capital values following Covid-19. The declines are most strongly felt in the retail sector.	— Each property sector is subject to its own cycle, with demand and supply affecting investor demand and rental value growth. — The retail sector is operating within a very challenging environment, with declining capital values and rental decline pulling away from the other main sectors. — There is polarisation within sectors as the current public health risks and economic headwinds have different impacts on subsectors. For example, in retail, supermarkets experienced boosted sales and footfall, while all other non-essential stores were forced to close.
Technology The continued rise of online retail, now including food, challenges the conventional retail and leisure sectors. Video conferencing is available to all and is being fully utilised in lockdown. Robotics and automation, smart devices and the advancement of 5G technology are all key drivers of change within society and the workplace.	— The acceleration in the adoption of remote and flexible working during the pandemic is unlikely to be fully reversed. — Office occupiers will be prompted to reassess requirements for size, location, layout and density. — A robotic workforce is unaffected by a public health crisis. — Big Data, Artificial Intelligence and Machine Learning are shaping the future of the workforce and the requirements for buildings in which they operate.
Sustainability There is heightened public awareness of environmental and social issues. High profile media coverage on topics including the climate emergency and plastic pollution has brought sustainability and societal impact central to the corporate agenda.	— Declaration of ESG policies and progression to targets is now the norm for UK businesses. — Occupiers are increasingly considering employee wellbeing when selecting space. Natural light, biophilia, fitness facilities and excellent occupier amenities all provide a competitive edge.

Industrial market trends

Standard industrial units, particularly in the supply constrained markets of London and the South East, are expected to deliver the strongest sector performance. Land constraints and change of use in these areas have limited supply. Robust demand pushed rents to record highs.

Given rent affordability pressures and the current economic climate, rental growth is forecast to fall back from an elevated level. It is anticipated that some standard industrial occupiers, such as last mile logistics operators, will seek to increase floor space in order to service heightened consumer demand from online retailing. As industrial property is arguably more able to accommodate social distancing guidelines than other sectors, it appears well placed to weather the storm.

The long-term outlook for standard industrial property is the most encouraging, underpinned by tight supply and healthy demand. The outlook is less positive for big box logistics, where a recent increase in speculative development is expected to be met with downward pressure on rents. The fate of the logistics sector is more closely tied to retailers, who are faced with extraordinary challenges in the current climate.

Office market trends

Office vacancy rates are generally low by historic standards and development activity is not at the level seen before the 2008 Global Financial Crisis. Under more ordinary economic conditions, healthy rental growth would be expected.

However, with strong ties to financial markets, office sector demand is expected to be subdued in the current climate. In addition, the Government's recommendation to work from home during the pandemic has forced previously reluctant employers to adopt remote and more flexible working practices, a trend which is unlikely to revert entirely. This may prompt occupiers to reassess requirements for office floorplate size, capacity and location. Expansion plans are likely to be put on hold.

There is particular concern that flexible office providers, for whom customer demand can be turned off very quickly, may struggle to survive. However, as the economy begins to improve it is perhaps these flexible leasing models that will be the most attractive in the future.

Retail and Leisure market trends

The retail sector was already suffering from structural issues before the lockdown and social distancing measures were put in place. In March 2020, the monthly retail sales volume suffered the largest fall since records began. All non-essential retail outlets were ordered to close in an extraordinarily unprecedented blow to the already ailing sector.

The likelihood is that the 2018/19 theme of retail failures and CVAs will continue at an accelerated rate, especially for those that do not have well established online offerings. Recent examples include Warehouse, Oasis and Laura Ashley.

Online sales, as a proportion of all retailing, reached a record high of 22.3% in March 2020 as consumers switched to online purchasing during the pandemic.

The leisure sector faces its own unique long-term challenges if temporary closures lead to behavioural changes in businesses and consumers. The extent to which the recent adoption of online meeting platforms will curtail business travel plans is yet to be realised. Virtual entertainment, media streaming platforms and other online offerings, previously a threat to cinemas and other leisure activities, will be strengthened by prolonged social distancing measures.

Food stores, on the other hand, saw the strongest monthly sales growth on record in March 2020 as consumers sought to stockpile goods ahead of the lockdown.

With rising vacancy leading to an oversupply of retail units, downward pressure on rents looks set to continue in most retail markets.

What this means for Picton

- The portfolio is well positioned by being overweight to the industrial sector. We will continue to acquire complementary assets in this sector where possible.
- We will seek to capture rental growth through new lettings and occupier transactions.
- We envisage only limited and selective disposals.

Our response to these trends

- Picton's occupier focused approach has enabled us to capitalise on strong demand for industrial property and grow ERVs through new lettings, regears and rent reviews.
- With a structural shift towards online retail, growth in delivery apps and increased expectation for shorter delivery times, means industrial property continues to remain in demand.
- Picton will strategically maintain its overweight position in the sector, applying an opportunity led approach to expand this element of the portfolio when appropriate and would seek to capitalise on liquidity when the investment market opens and if there are suitable purchasing opportunities.

What this means for Picton

- We will retain our balance of regional offices with reduced London exposure.
- We will seek to capture rental growth through new lettings and occupier transactions.
- We recognise that in the short-term we may need to provide more flexible leasing arrangements reflecting the current market.

Our response to these trends

- We have been upgrading space, focusing on amenities and making improvements in energy efficiency, ensuring our buildings meet occupier expectations.
- Picton will continue to actively manage the office portfolio, aiming to capitalise on rental growth, particularly within the regions, and engage with existing and potential occupiers to grow occupancy and income in the portfolio.
- When strategically considering the future of the office portfolio, due diligence and research will include a focus on UK wide infrastructure improvement projects. This will help to ensure that the office portfolio is positioned in locations likely to experience the highest levels of growth and benefit from continuing improvements in the most desirable cities and leading office markets.

What this means for Picton

- There is likely to be lower demand for retail property in the short to medium-term.
- We expect rental income in this element of the portfolio to reduce in the medium-term.

Our response to these trends

- Picton remains very cautious on the outlook for the retail sector.
- Picton is pursuing opportunities to convert retail property to other higher value uses.
- Through engaging with occupiers, we seek to create open dialogue enabling opportunities to extend income and maintain occupancy, but reflecting lower rental levels.
- We have refurbished space to enhance the retail experience, helping occupiers attract and retain customers.
- We will seek to reduce our retail exposure over the next 12 months.

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.

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 meets occupier demand

4 Outperforming the MSCI UK Quarterly Property Index

Associated Risks & Connected KPIs

2 5 6 7 8 A C D G I J

Read more on pages 19-23

Operational Excellence

3 1 2

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 & Connected KPIs

1 3 4 10 11 E F H

Read more on pages 19-23

Acting Responsibly

3 1 2

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

2 Working closely with our occupiers, shareholders and other stakeholders

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

Associated Risks & Connected KPIs

4 9 B K L

Read more on pages 19-23

Continued upper quartile performance

Alongside running the business in these extraordinary market conditions, this year we have also focused on reviewing our strategy to ensure it reflects emerging trends.

The three key pillars of our strategy are Portfolio Performance, Operational Excellence and Acting Responsibly. These do not dramatically change the direction of the business, but better define our areas of focus through the more detailed priorities (listed on pages 14 to 15) and ensure we are best placed to deliver on our purpose.

The impact of Covid-19 has in the short-term led to an almost complete shutdown in both the commercial leasing and investment markets. This makes it harder than usual for valuers to provide a valuation or estimates of market price when there is no market itself.

This uncertainty has led to the suspension of open-ended property funds, and significant volatility within listed property company shares. There is currently a clear arbitrage between pricing listed and unlisted property vehicles. We think there will be renewed selling pressure from these open-ended structures when they reopen, which may in itself create opportunistic buying opportunities for those that are well capitalised.

Looking back, the primary concern last year was about the impact of Brexit on trade and occupational demand. The uncertainty created by the political process led many companies to delay occupancy decisions and whilst these risks have not yet gone away, in January we were starting to see positive signals and an increase in occupational and investment demand following the General Election result and the certainty that provided.

Last year we made no acquisitions and where we made disposals we used the proceeds to repay debt and reduce our gearing. We are well positioned, with a high exposure to industrial, warehouse and logistics, alongside the regional office market. It is likely, however, that any prolonged lockdown will change habits and occupational requirements. As the impact becomes clearer we will have to ensure our portfolio approach remains relevant to maintain our track record of outperformance.

Covid-19 response

We continue to operate effectively and all of our employees have been working remotely since mid-March. We have not needed to furlough any members of our team or access any form of Government support. The health and safety of our employees, our occupiers and service providers is paramount and our actions to date have been effective in ensuring this. This shutdown has affected our occupiers to varying degrees, but it is encouraging to see buildings being re-occupied, albeit in line with social distancing measures, and we are working to establish proper protocols as the lockdown is gradually eased. Central London, with its reliance on public transport, would appear less ready to return to work than other parts of the UK, but a safe and steady approach is sensible under the circumstances and this matches the feedback we are receiving from our occupiers.

Whilst the March rent collection number stands at 82%, which is lower than last year, we recognise that there will be a short-term impact as a result of the lockdown. We think it is appropriate to look at individual circumstances and be creative to protect value and also provide support to occupiers as required.

£22.5m
Total profit

£509m
Net assets

93p
NAV per share

3.7p
EPRA earnings per share

> **We believe our assets, our team and our strategy will continue to drive our success.**
>
> **Michael Morris**
> Chief Executive

We do however have to strike the right balance between occupier and shareholder, recognising these are difficult circumstances for all. We are fortunate to have already established good relationships with our occupiers well ahead of this crisis, so we have a good understanding of their business needs. We will look at circumstances on a case-by-case basis and prioritise needs across the portfolio. Equally, we need to find creative solutions to this problem and by offering short-term cash flow assistance we may well be able to protect or enhance capital values, by virtue of longer lease commitments, stepped rents or agreeing future rent increases. The recently announced dividend reduction will enable us to deliver the best outcomes in this regard.

Portfolio Performance

We have again continued to outperform the MSCI UK Quarterly Property Index. Our track record now means we have outperformed that Index since inception and over the last one, three, five and ten years. Recognising the diversified nature of the portfolio, where there will always be outperforming and underperforming elements, our positioning against the retail and leisure sector in favour of industrial and regional offices has been advantageous for some time.

We have made significant progress in enhancing our assets this year. Our refurbishment programme totalled £9 million, which is a substantial increase on preceding years. We have also had considerable success working with our occupiers, enabling them to have space that meets their needs. We have undertaken some key transactions, extending income, de-risking our cash flow, and these are detailed in the subsequent case studies. Although we have grown the passing rent on a like-for-like basis, the strategy to keep gearing low does have an impact on overall income, and with debt costs generally lower than property yields, there is still a trade-off between capital and income returns.

It has been frustrating that we have not grown occupancy over the year, which currently stands at 89%. Ultimately these vacancies provide a significant element of the future income upside potential.

Against a difficult backdrop, the leasing markets have not been easy and a number of refurbishment projects took longer to complete and consequently delayed letting prospects. We also sold income producing assets to de-risk the balance sheet which has had a negative impact on income and occupancy, but equally have protected our capital position and crystallised gains.

Operational Excellence

We have undertaken and implemented several measures aimed at increasing the efficiency within the business. During the year we introduced an asset management system, Coyote, to better manage our assets, as well as a new IT system. Both systems are working well as we continue to work remotely.

We have recruited a Head of Occupier Services to strengthen our property management service delivery, a further commitment to our occupier focused approach. We continue to have an agile and flexible business and the speed with which we were able to adapt to remote working is testament to this.

From an income perspective our EPRA earnings are lower, reflecting activity referred to in the Portfolio Performance section above. We have reduced our gearing over the year, concerned about risks associated with Brexit, but this has proved timely recognising the adverse impact of Covid-19.

Our net asset growth has been more muted than in previous years, but this is not unexpected recognising market conditions. We believe our assets, our team and our strategy will continue to drive our success. Growth, be that organic or through acquisition, will be considered so long as it creates value for shareholders.

Acting Responsibly

We have made significant progress strengthening relationships with occupiers this year and this is borne out by the portfolio activity and projects we have undertaken.

The work we have done this year to promote and deliver our Picton Promise – focused on Action, Community, Technology, Support and Sustainability - has many overlapping features and we believe our occupiers, and indeed future occupiers, will want to work and engage with a landlord that shares similar values on not only reducing emissions but a broader array of sustainability issues.

We provide regular shareholder updates and through Edison provide regular updates and video interviews. Through our brokers JP Morgan, Stifel and specifically in the regional wealth management community with Kepler, we have regular engagement with both existing and prospective shareholders.

Whilst sustainability has been a focus of ours for many years, the introduction of a Responsibility Committee in 2018 further integrated this within our business model and sustainability now forms part of our corporate strategy. We have engaged with occupiers and investors this year to review and better understand material issues in order to progress our sustainability initiatives. We were awarded EPRA Gold for our separate Sustainability Report last year and we are part of GRESB.

We have maintained our company values, positive working culture and alignment of the team throughout the year. We specifically undertook an employee survey last year and the results of this were fed back to the Board via our Non-Executive Director responsible for employee engagement.

Outlook

Recognising our newly defined purpose and that property returns are driven by both income and capital, our focus is currently two-fold. In the short-term we need to work through lockdown and help our occupiers get their businesses back up and running. Workplace protocols, lease restructurings and financial assistance are all aspects that will protect value for shareholders.

We are also focused on the future and how this short-term disruption may well change future occupational requirements and consequently create opportunities. We need to own assets where there is continued occupational demand, enabling a growing income profile, and in turn capital appreciation.

There is significant embedded upside in the portfolio income profile from the current occupancy level. Once markets reopen, finding occupiers for this vacant space is an absolute priority.

Our strategy, which offers a diverse approach and allows us the flexibility to adjust the portfolio to better performing sectors, ensures we are not constrained to a single sector strategy, with limited ways to exit, as has been the case for some of the REIT specialists in recent years. We continue to manage the business through these events so we come out the other side in a strong position. We will continue to provide updates as we make progress this year.

> **There is significant embedded upside in the portfolio income profile from the current occupancy level.**
>
> **Michael Morris**
> Chief Executive

Picton has low leverage and significant operational headroom against covenants. The majority of the portfolio is invested in sectors that have been less impacted through Covid-19, and likely to rebound more quickly. It is clear that the digital transformation will continue apace, be that increased home working or further spend online and our portfolio will need to continue to adapt to these changes.

Our focus is to control what we can, manage risks and focus on future opportunities.

Michael Morris
Chief Executive

22 June 2020

Our strategy in action

2/

Tower Wharf, Bristol
At Tower Wharf in Bristol, we further upgraded the space through the refurbishment of the reception, common areas and installation of additional shower facilities.

As a result of these improvements, we worked with an existing occupier, enabling them to expand within the building, upsizing them by 73% to 19,000 sq ft. We secured a minimum of ten years at an initial rent of £0.5 million, 5% above ERV.

Elsewhere in the building, we moved an occupier break option out by three years to August 2023 and settled a rent review, securing £0.4 million per annum, 4% ahead of ERV.

Read more on pages **34–35**

Acting Responsibly

Working closely with our occupiers, shareholders and other stakeholders.

Working with our occupiers is fundamental to what we do and assists us in identifying asset management opportunities, especially when occupiers need to expand and contract. Knowing what our occupiers' business needs are allows us to work with them to restructure leases, increase lease lengths, and potentially enhance rents by, for example, surrendering leases where the passing rent is below the market level.

1/

Shipton Way, Rushden
At our distribution unit in Rushden, we worked with our largest occupier ahead of their lease expiry in early 2020. We knew the space was too large for their current requirements so we worked to identify how we could minimise any disruption to income.

We agreed to move the expiry date to October 2020 to aid their relocation and at the same time, working closely with Whistl, the sub-tenant of part, entered into an agreement whereby Whistl agreed to take a new lease on the whole unit. This will make Whistl the single largest occupier within our portfolio.

The new lease is for a minimum term of five years at a rent of £1.6 million per annum, in line with ERV.

Read more on pages **32–33**

Our strategy in action

Acting Responsibly

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

As a responsible landlord, we are committed to assessing the environmental performance of our portfolio to reduce the impact of our buildings. We have a continuous programme of monitoring EPCs in place throughout the portfolio, and seek to improve a building's environmental efficiency when carrying out refurbishments. We have introduced green lease clauses into our standard lease agreements which address energy and water efficiency, waste management and regulatory requirements.

1/

Swiftbox, Rugby
At Swiftbox, our 99,500 sq ft distribution unit in Rugby, we have carried out a comprehensive refurbishment including a new roof and modernisation of the exterior.

The unit is rare, being cross docked with a large self-contained yard, and we expect good occupational interest.

The refurbishment focused on improving the unit's energy efficiency as well as enhancing its specification for an incoming occupier. The EPC rating moved from an E to a B, which is the best possible rating for a unit such as this and means it is future-proofed.

Read more on pages
32-33

99,500 sq ft

Distribution unit

55,500 sq ft

Multi-let industrial estate

2/

Datapoint, London E16

At Datapoint, London E16, where we own a 55,500 sq ft multi-let industrial estate, we have seen significant rental growth in the area over the last year due to scarcity of supply.

Two leases with short-term income and low rents were surrendered, where we received a premium of £0.2 million, in order that we could attract new occupiers on longer leases at higher rents.

The units have been comprehensively refurbished, to include external enhancements which modernise the estate and environmental improvements, meaning the EPC rating has increased from an E to a C.

One of the units has already been leased, two weeks after completion of the works, for a minimum term of ten years at a rent of £0.2 million per annum, 24% ahead of ERV and 83% ahead of the previous passing rent.

Read more on pages **32-33**

3/

Metro, Manchester

During the year, we refurbished the reception and common areas at Metro, alongside the refurbishment of a recently vacated office suite. These works were focused on enhancing the entrance, common areas and occupier amenities, with break out space, showers and changing facilities.

The building already had a BREEAM excellent rating and these works enhanced further its sustainability credentials, including encouraging people to cycle to work.

These works successfully allowed us to lease the vacant floor to a Government department on a new lease, securing a minimum of ten years at an initial rent of £0.4 million per annum, 2% above ERV.

The occupier feedback has been positive and the building is now fully leased.

Our strategy in action

Portfolio Performance

Enhancing asset quality, providing space that meets occupier demand.

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.

1/

Stanford Building, London WC2
At Stanford Building in the heart of Covent Garden, we are underway with a comprehensive refurbishment which, Covid-19 permitting, is due to complete in the summer.

This makes the most of the features of this Grade II listed building and will provide three floors of retail space with original features and a landmark unit fronting Long Acre with an additional entrance onto the rejuvenated Floral Street.

Three floors of offices will provide some of the best quality space available in the size range, complemented by a larger reception with concierge and occupier amenities including bicycle storage and shower facilities. The upper floor will be high end residential, with stunning views over the London skyline.

The building will be future-proofed in respect of its environmental credentials, with the works including highly efficient air-conditioning, solar panels and low energy lighting throughout.

Read more on pages 36-37

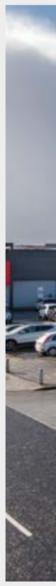
2/

Angouleme Retail Park, Bury
At Angouleme Retail Park in Bury, our focus has been on repositioning the park through refurbishment, creating a modern shopping environment which appeals to occupiers and shoppers. The scheme is helping to rejuvenate Bury town centre.

As part of the works, we were able to secure a new lease with Argos, securing a ten-year term at an initial rent of £0.2 million per annum, which was 10% below the previous passing rent but 16% ahead of ERV.

Having secured an anchor occupier and completed the refurbishment, we are pursuing the second stage of our strategy and focusing on letting the remaining two units once the Covid-19 lockdown ends.

Read more on pages 36–37



Operational Excellence

Having an appropriate capital structure for the market cycle.

In order to ensure an appropriate balance of risk and return, we consider the overall level of debt, its operational flexibility and its cost. We will make adjustments in the light of expected future returns.

1/

Citylink, Croydon and Magna Park, Lutterworth
During the year we completed two disposals in Croydon and Lutterworth for a combined £34.1 million and used the proceeds to reduce both our total debt outstanding by 15% and our loan to value ratio, which now stands at 22%. This helped to reduce finance costs over the year and now provides us with significant operational flexibility in the current environment.

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

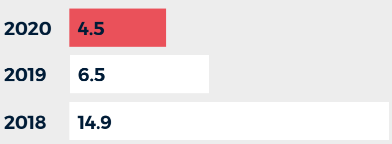
This year we have added a new non-financial key performance indicator, employee satisfaction, based on the results of an employee survey carried out in the year.

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

Linking our performance to EPRA Best Practices Recommendations pages **112–114**

Total return (%)



A

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.

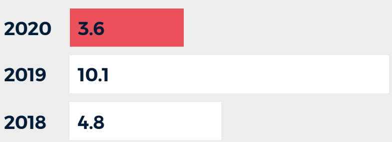
The Group's total return is used to assess whether our aim to be one of the consistently best performing diversified UK REITs is being achieved, and is a measure used to determine the annual bonus.

Our performance in 2020

Compared to our peer group, our total return of 4.5% was one of the highest for the year, and against a background of negative market returns, as measured by MSCI.

3 1 2

Total shareholder return (%)



B

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 2020

Our return of 3.6% was one of the few in our peer group to be positive for the year.

3 1 2

Total property return (%)

2020	5.3
2019	7.5
2018	13.0

C

Why we use this indicator

The total property return is the combined ungeared 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 2020

We have delivered an upper quartile return of 5.3% compared to the MSCI UK Quarterly Property Index return of -0.5% for the year, and we have also outperformed on a three, five and ten-year basis.

3 1 2

Property income return (%)

2020	4.8
2019	5.6
2018	6.0

D

Why we use this indicator

The property income return, as calculated by MSCI, is the ungeared income return of the portfolio. With our portfolio biased towards income generation, this is an important indicator.

Our performance in 2020

The income return for the year of 4.8% was ahead of the MSCI UK Quarterly Property Index of 4.5%, and we have also outperformed on a three, five and ten-year basis.

3 1 2

Loan to value ratio (%)

2020	21.7
2019	24.7
2018	26.7

E

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 2020

The loan to value ratio has reduced further this year following the repayment of our revolving credit facilities.

3 1 2

Cost ratio (%)

2020	1.1
2019	1.1
2018	1.1

F

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 2020

The cost ratio has remained at 1.1% this year with administrative expenses largely unchanged from 2019.

3 1 2

Key Performance Indicators continued

EPRA net asset value per share (pence)

2020	93
2019	93
2018	90

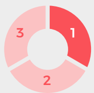
G

Why we use this indicator

The net asset value 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.

Our performance in 2020

The EPRA net asset value per share has remained stable over the year.



EPRA earnings per share (pence)

2020	3.7
2019	4.3
2018	4.2

H

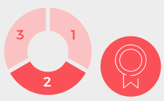
Why we use this indicator

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 operational 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 2020

EPRA earnings per share is lower this year largely due to the refurbishment of a number of assets taking place, which has reduced occupancy in the short-term.



EPRA vacancy rate (%)

2020	11.5
2019	10.3
2018	4.2

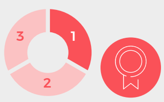
I

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 2020

The EPRA vacancy rate has increased over the year as a result of lease events together with a large proportion of the vacant space under refurbishment, most notably at our Covent Garden asset. The vacancy rate is above the MSCI IRIS Benchmark vacancy rate of 7.0%.



Retention rate (%)

2020	53
2019	49
2018	63

J

Why we use this indicator

This provides us with a measure of asset suitability and satisfaction of our occupiers.

Our performance in 2020

Retention was similar to 2019, reflecting that we continue to regear leases early and ahead of lease expiry, meaning a lot of income risk was mitigated in prior years. A further £5.5 million of rental income was extended and retained for lease expiries beyond March 2020. Including this income would increase our retention rate to 78%.

EPC ratings (%)

2020	89
2019	82
2018	81

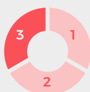
K

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' (inefficient). A higher EPC rating is likely to lead to lower occupational costs for occupiers.

Our performance in 2020

The proportion of EPC ratings between A to D has increased on the prior year and now makes up 89% of the total portfolio. Where we have upgraded space we have sought to enhance EPC ratings as appropriate.



Employee satisfaction (%)

2020	83
2019	N/A
2018	N/A

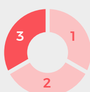
L

Why we use this indicator

We have introduced this indicator to assess our performance against one of our strategic priorities, 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 2020

We will build on the results of this initial survey and have considered all of the issues raised.



Proactively managing the portfolio

We have had a number of considerable successes across the portfolio despite it being such a difficult year in which to operate. We ended the year with a like-for-like increase in the portfolio valuation, rental income and Estimated Rental Value (ERV). We have had one of the busiest years in terms of portfolio transactions, up 30% on the previous year.

We have invested heavily back into the portfolio enhancing the quality and lettability of space, and we have been able to de-risk and extend our income profile. We have further strengthened our relationships with occupiers and our focus on our key commitments of Action, Community, Technology, Support and Sustainability, appears increasingly helpful in light of the Covid-19 impact.

Performance

Our portfolio now comprises 47 assets, with around 350 occupiers, and is valued at £664.6 million with a net initial yield of 4.9% and reversionary yield of 6.4%. Our asset allocation, with 48% in industrial, 34% in office and 18% in retail and leisure, combined with investment disposals and transactional activity, has enabled us again to outperform the MSCI UK Quarterly Property Index on a total return basis over one, three, five and ten years.

Overall the like-for-like valuation was up 1.4%, with the industrial sector up 6%, offices delivering growth of 3% and retail and leisure declining -12%. This compares with the MSCI index recording capital declines of -4.8% over the period.

The industrial assets continue to perform better than the other sectors, primarily due to our allocation to South East multi-let estates which account for over 73% of our industrial exposure. In addition we have extended income with three of our largest occupiers at three of our distribution warehouses. Conversely, and despite active management to mitigate downside risk, our retail assets have delivered negative returns. Pleasingly, rental transactions have been generally very close to or higher than independent ERVs rather than significantly below, which we understand is happening elsewhere in the market.

Key facts

47
Portfolio assets

89%
Occupancy

£36.2m
Passing rent

The overall passing rent is £36.2 million, an increase from the prior year of 1.2% on a like-for-like basis. This was a result of the industrial portfolio rents growing by 6%, offset by the office and retail rents decreasing by 2% and 3% respectively. The regional offices saw growth of 1%, which was offset by declines in London and in particular at Angel Gate, Islington which is being adversely affected by the serviced office sector. We are countering the effect by offering fully fitted suites and flexible leasing terms.

The March 2020 ERV of the portfolio is £45.2 million, with the positive growth in the industrial sector of 4.4% and office sector of 3.5% offset by the negative growth in the retail sector of -8.0%. 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 and regional office occupational markets have remained resilient. Conversely, retail demand has not improved, and we expect it to worsen over the next year, particularly recognising the additional impact Covid-19 will have on occupational demand.

Activity

We have had an exceptionally good year in respect of active management transactions. We completed 20 rent reviews, 10% ahead of ERV, 31 lease renewals or regears, 12% ahead of ERV and 35 lettings or agreements to lease, 2% ahead of ERV.

Two assets were sold for gross proceeds of £34.1 million, 15% ahead of the March 2019 valuation. Citylink, Croydon was sold following the early surrender of two leases, generating £0.6 million of additional income. The property was sold for £18.2 million reflecting a net initial yield of 4.8%.

We also sold 3220 Magna Park, Lutterworth following active management where we extended the lease by a further three years to December 2022 and settled a 2019 rent review securing an 11% uplift to £1 million per annum, achieving one of the highest rents at the Park. The property was sold for £15.9 million reflecting a net initial yield of 5.8%.

Both sales crystallise the upside from the active management activity and, noting the age of the buildings and oversupply in these locations, avoid potential future capital expenditure and extended void periods.

Over the year we have invested £9 million into the portfolio across 20 separate projects. These have all been aimed at enhancing space to attract occupiers and grow income. Whilst a number of key projects are still to be completed, we are now well placed to attract occupiers and our refurbishment pipeline is substantially reduced, having completed the majority of the projects.

Our largest void is Stanford Building on Long Acre in Covent Garden, accounting for over a third of the total vacancy rate. Work on site paused due to the lockdown and will now complete in the summer. The building will provide best-in-class retail, office and residential accommodation.

Strategic Report

Portfolio Review continued

This investment across the portfolio has enabled us to create high quality space and help to future-proof assets from a sustainability perspective. We have also worked with occupiers to achieve their occupational aims and thereby create value through additional leasing or extending income.

Although no acquisitions were made, the net effect of the above is that the average lot size of the portfolio was £14.1 million, in line with last year.

Outlook

If activity for most of the year was tempered by Brexit, towards the end of the year it has been impacted by the Covid-19 pandemic and consequential lockdown on 23 March 2020. This has led to a far more uncertain business environment and our focus has been on delivering our Picton Promise, focusing particularly on our commitments of Action, Community and Support to help our occupiers who need assistance.

New requirements from potential occupiers have slowed and social distancing measures make viewings difficult to conduct. We are, however, embracing new technologies, creating virtual tours and thinking more laterally as to how we can market our buildings.

Our focus remains on working with our occupiers during this period of business uncertainty, whilst continuing to proactively manage the existing portfolio. At 31 March the portfolio has £9 million of reversionary upside, £5 million from letting the void, £3 million from expiring rent free and £1 million from reversionary leases.

We are seeing better demand for our industrial properties, which account for 48% of the total portfolio by value, and we believe this sector will continue to outperform.

Businesses continue to seek best-in-class space in the office sector, hence our investment over the year into nine office buildings, and this, combined with our flexible offering, makes our properties attractive to current and new occupiers.

The retail and leisure sector will need to evolve, especially following the current lockdown, but with this sector only making up 18% of our portfolio, we will work with occupiers to ensure we can assist them where appropriate to maintain income.

The work done over the year to lease space and extend income, together with our portfolio weightings, has put us in a strong position to weather this storm. In line with our occupier focused, opportunity led approach, we continue to proactively engage with our occupiers, which we believe assists occupier retention and adds value.

Top ten assets

The largest assets as at 31 March 2020, ranked by capital value, represent 54% 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	336,700	21	100
River Way Industrial Estate, Harlow, Essex	12/2006	Industrial	Freehold	454,800	10	98
Angel Gate, City Road, London EC1	10/2005	Office	Freehold	64,500	22	74
Stanford Building, Long Acre, London WC2	05/2010	Retail	Freehold	19,700	0	0
Tower Wharf, Cheese Lane, Bristol	08/2017	Office	Freehold	70,800	5	83
50 Farringdon Road, London EC1	10/2005	Office	Leasehold	31,000	5	100
Shipton Way, Rushden, Northants.	07/2014	Industrial	Leasehold	312,900	1	100
Datapoint, Cody Road, London E16	05/2010	Industrial	Leasehold	55,500	5	88
Lyon Business Park, Barking, Essex	09/2013	Industrial	Freehold	99,400	9	100
Colchester Business Park, Colchester	10/2005	Office	Leasehold	150,700	22	99

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2020, are as follows:

Occupier	Contracted rent (£m)	%
Public sector	1.7	4.3
Belkin Limited	1.7	4.2
B&Q Plc	1.2	3.1
The Random House Group Limited	1.2	3.0
Snorkel Europe Limited	1.1	2.8
XMA Limited	1.0	2.4
Portal Chatham LLP	0.8	2.0
TK Maxx	0.7	1.8
Canterbury Christ Church University	0.7	1.7
DHL Supply Chain Limited	0.6	1.5
Total	**10.7**	**26.8**

Longevity of income

As at 31 March 2020, expressed as a percentage of contracted rent, the average length of the leases to the first termination was increased to 5.5 years (2019: 5.1 years). This is summarised as follows:

	%
0 to 1 year	8.8
1 to 2 years	14.1
2 to 3 years	11.0
3 to 4 years	12.6
4 to 5 years	12.3
5 to 10 years	31.6
10 to 15 years	8.2
15 to 25 years	0.1
25 years and over	1.3
Total	**100.0**

Retention rates and occupancy

Over the year, total ERV at risk due to lease expiries or break options totalled £6.6 million, compared to £6.9 million for the year to March 2019.

Excluding asset disposals, we retained 53% of total ERV at risk in the year to March 2020. This comprised 32% on lease expiries and 21% on break options.

In addition to units at risk due to lease expiries or break options during the year, a further £5.5 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Occupancy has reduced slightly during the year, primarily reflecting the timing of lease events, ongoing challenges in the retail sector and some specific asset management surrenders we have initiated. At the year end 62% of our vacant buildings were being refurbished, so only 38% were available to lease immediately.

Occupancy has decreased from 90% to 89%, which is behind the MSCI IRIS Benchmark of 93% at March 2020. On a look-through basis we have 57% of our total void in offices, 28% in retail, primarily at a flagship store in Covent Garden, and only 15% of our void is in industrial, reflecting the stronger occupational market.

Industrial

The industrial portfolio, which accounts for 48% of the portfolio, again delivered the strongest sector performance of the year. This was the result of active management extending income on our distribution assets, combined with continued occupational demand for the smaller units, resulting in further rental growth, especially in London and the South East.

Through asset management activity we have been able to capture rental growth and extend income. 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 £18.1 million or 6.0% to £318.3 million, and the annual rental income increased by £0.9 million or 6.0% to £16.0 million. The portfolio has an average weighted lease length of 5.1 years and £2.6 million of reversionary potential.

We have seen rental growth of 4.4% across the portfolio and are experiencing demand across all of our estates. Occupancy is 96%, with the key void being our unit in Rugby which has recently been refurbished. In respect of the multi-let estates we only have three vacant units out of 127, one of which is under offer.

We extended income on three of our distribution units, one of which we subsequently sold, and we completed the refurbishment of our unit in Rugby, which is now being marketed.

Portfolio activity

At Shipton Way, Rushden, in what would have been our largest single income risk in 2020, we extended a lease with the existing occupier, Belkin, to facilitate a pre-letting of the entire building to Whistl UK Limited. Whistl will take a new ten-year lease, subject to break in 2025, at an annual rent of £1.6 million, in line with ERV, and become our largest single occupier from October 2020, when Belkin vacates.

At Parkbury, Radlett, we extended a lease with the largest occupier on the estate which was due to expire in November 2020. This secures a new ten-year reversionary lease, subject to break in 2025, with stepped rental increases to £1.0 million per annum, 42% ahead of ERV. In addition, we let four units for a combined £0.4 million per annum, 8% ahead of ERV, renewed one lease for £0.2 million per annum, 5% ahead of ERV, and settled four rent reviews achieving a £0.3 million uplift in rent to £1 million per annum, 19% ahead of ERV.

At Trent Road, Grantham, we extended the lease that was due to expire in 2023 until 2029, subject to break in 2026, at £1.2 million per annum, in line with ERV.

At 3220 Magna Park in Lutterworth, we restructured the lease and secured a further three years term certain until an occupier break option in December 2022. As part of the same transaction, the December 2019 rent review was settled, securing an 11% uplift to £1 million per annum, 6% ahead of ERV, achieving one of the highest rents at the Park. The unit was subsequently sold for £15.9 million.

At Datapoint in London E16, following the completion of a rent review, we achieved a 98% uplift in rent to £0.1 million per annum, 15% ahead of ERV. Two leases were surrendered on the estate, securing a premium of £0.2 million, and were subsequently refurbished by March. One has been let, two weeks after completion, for a minimum term of ten years at a rent of £0.2 million per annum, 24% ahead of ERV and 82% ahead of the previous passing rent. We have good interest in the other unit.

At Nonsuch Industrial Estate in Epsom, the active management strategy to combine units resulted in a letting to Topps Tiles and we also completed three further lettings during the period, for a combined £0.2 million per annum, 2% ahead of ERV. Two leases were renewed, the passing rent increasing by 22% to a combined £0.1 million per annum, 5% ahead of ERV.

Our largest void in the industrial portfolio is Swiftbox, the 99,500 sq ft unit in Rugby, where we completed a comprehensive refurbishment in February. This is one of the few cross-docked units available in the 'Golden Triangle' and we expect good interest.

Outlook

The full impact of the Covid-19 pandemic remains to be seen, but Brexit concerns have had a limited impact to date.

Demand remains strong for sub-100,000 sq ft units, with occupiers being more discerning about the age and specification of the larger distribution units. We see continued rental growth, albeit at a slower rate, in respect of the smaller units especially 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, due to a strong development pipeline, although there is a short-term demand spike due to Covid-19 from supermarkets and other retailers with increased storage requirements.

The focus going forward is the leasing of Rugby and both capturing the rental growth on the smaller units and working proactively with our occupiers to facilitate their business needs. We have 16 lease events in the coming year, the overall ERV for these units is 16.5% higher than the current passing rent of £0.7 million. This provides us with the opportunity to grow income further.

Key metrics

£318.3m

2020 value
(2019: £312.8m)

2.6m sq ft

Internal area
(2019: 2.7m sq ft)

£16.0m

Annual rental income
(2019: £16.0m)

£18.6m

Estimated rental value
(2019: £18.7m)

96%

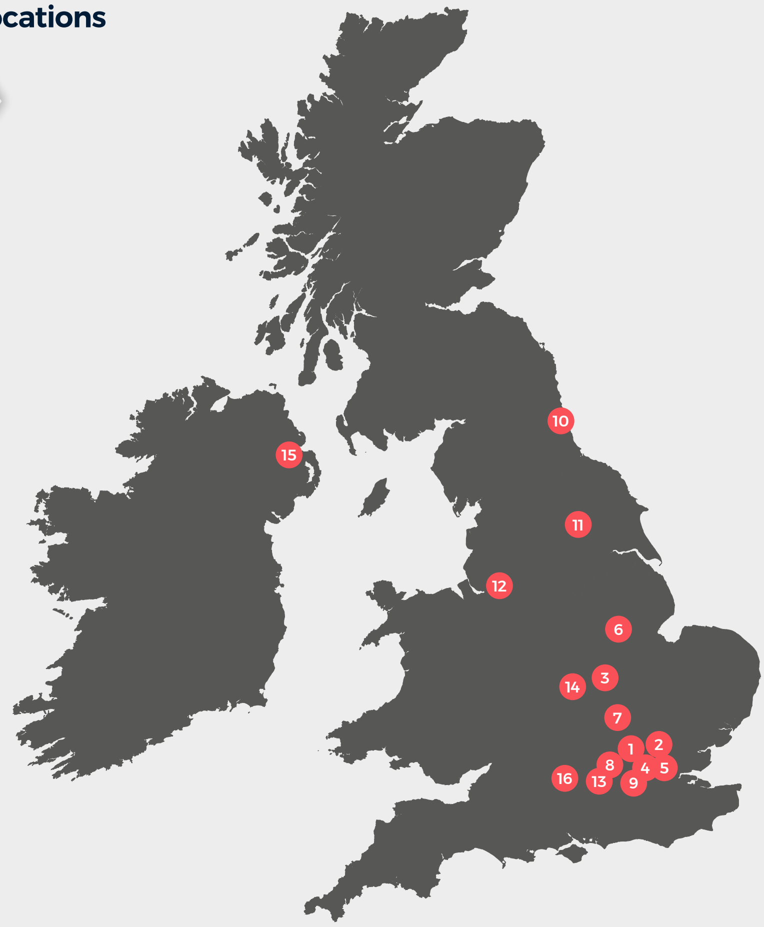
Occupancy
(2019: 98%)

16

Number of assets
(2019: 17)

Parkbury Industrial Estate
Radlett

Locations



1
Parkbury Industrial Estate
Radlett
336,700 sq ft – Freehold

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

3
Shipton Way
Rushden
312,900 sq ft – Leasehold

4
Datapoint
London E16
55,500 sq ft – Leasehold

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

6
Grantham Book Services
Grantham
336,100 sq ft – Leasehold

7
Sundon Business Park
Luton
127,800 sq ft – Leasehold

8
The Business Centre
Wokingham
100,800 sq ft – Freehold

9
Nonsuch Industrial Estate
Epsom
41,700 sq ft – Leasehold

10
Vigo 250
Washington
246,800 sq ft – Freehold

11
Units 1 & 2
Kettlestring Lane, York
157,800 sq ft – Freehold

12
Easter Court
Warrington
81,500 sq ft – Freehold

13
Western Industrial Estate
Bracknell
41,200 sq ft – Freehold

14
Swiftbox
Rugby
99,500 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 portfolio, which accounts for 34% of the portfolio, delivered the second strongest performance of the year. This was a result of our investment into the buildings to make them more attractive to existing and new occupiers, combined with continued occupational demand, especially in the regions.

Through working with our occupiers and actively managing our properties, we have been able to retain and attract occupiers, which in turn enables us to capture rental growth, particularly in markets with a shortage of Grade A space, such as Bristol and Milton Keynes.

On a like-for-like basis, our office portfolio value increased by £6.6 million or 3.0% to £224.6 million, and the annual rental income decreased marginally by £0.3 million or 2.2% to £12.9 million. The portfolio has an average weighted lease length of 4.0 years and £4.5 million of reversionary potential.

Occupational demand has been stronger in the regions than in London. We have seen rental growth of 3.5% across the portfolio and occupancy is 88%, primarily due to key voids at Angel Gate, London and Pembroke Court, Chatham. We invested £2.7 million into our office assets during the period and disposed of one asset, detailed below.

Portfolio activity

At Tower Wharf, Bristol, following completion of works to upgrade the reception and the installation of additional shower facilities, we agreed to upsize an existing occupier and extended their lease which was due to expire in May 2020. This increased their floor space by 73% and secured a new 15-year lease, subject to break in 2030, at a rent of £0.5 million per annum, which was 5% ahead of the ERV and £0.3 million ahead of the previous passing rent. In addition, we moved out an occupier's break option by three years and settled a rent review, achieving a 29% uplift to £0.4 million per annum, 4% ahead of ERV.

At Grafton Gate, Milton Keynes, we comprehensively refurbished the common areas and, working with an occupier, upgraded their office, installing energy efficient LED lighting and creating an up-to-date working environment. These works meant the building's EPC rating improved from an E to a C, future-proofing it in respect of the Minimum Energy Efficiency Standards. As part of the office upgrade works, we settled a rent review, securing a 52% uplift to £0.6 million per annum, 30% ahead of ERV.

At Metro, Salford Quays, where a lease event created a vacant floor, we comprehensively refurbished the common areas for the benefit of our occupiers and to make the building more attractive. The floor was let to HM Government within six months of the refurbishment completing on a 20-year lease subject to break in 2030, at £0.4 million per annum, which was 2% ahead of ERV.

At Waterside House, Leeds, following upgrade works, we upsized our existing occupier, HM Government, into the whole building on a ten-year lease at a rent of £0.3 million per annum, which was 16% ahead of ERV.

At Citylink, Croydon, we restructured two leases after occupiers actioned break clauses. This resulted in an early surrender for a premium and a simultaneous new short-term letting. The property was subsequently sold for £18.2 million.

Our largest office void is the office element at Stanford Building WC2 which is classed as a retail property and is detailed in the retail section.

The offices will provide fibre-enabled Grade A accommodation with original warehouse features, commissionaire, occupier amenities and environmental improvements. We expect good interest due to the quality of the accommodation on offer and size of the suites.

Occupancy remained stable over the period at 88%, with the letting activity offset by space coming back in Chatham and London.

Outlook

Generally, the regions continue to outperform London with occupiers looking for high specification buildings, which is why we have carried out significant refurbishments at eight of our regional buildings, investing £2.5 million to improve common areas, adding occupier amenity space and future-proofing them in respect of sustainability.

The longer-term impact of the Covid-19 pandemic may well lead to more remote working which is likely to change the way physical office space is used.

We have countered the impact of serviced offices by offering flexibility through our 'rightsizing' approach as well as our high quality contemporary space and occupier amenities, meaning our buildings remain attractive to businesses who want control of their own space. Looking forward, we will build on the upgrade work completed across the office portfolio to actively manage it to attract occupiers.

We have 33 lease events in the coming year, the current ERV for these units is 13.2% higher than the current passing rent of £2.0 million and a 12% void. This provides us with the opportunity to grow income further.

Key metrics

£224.6m
2020 value
(2019: £235.0m)

0.8m sq ft
Internal area
(2019: 0.9m sq ft)

£12.9m
Annual rental income
(2019: £14.2m)

£17.4m
Estimated rental value
(2019: £18.1m)

88%
Occupancy
(2019: 88%)

14
Number of assets
(2019: 15)

Tower Wharf, Bristol
Refurbished reception area

Locations

1 **Angel Gate**
London EC1
64,500 sq ft – Freehold

2 **Tower Wharf**
Bristol
70,800 sq ft – Freehold

3 **50 Farringdon Road**
London EC1
31,000 sq ft – Leasehold

4 **Colchester Business Park**
Colchester
150,700 sq ft – Leasehold

5 **30 & 50 Pembroke Court**
Chatham
86,300 sq ft – Leasehold

6 **Metro**
Manchester
71,000 sq ft – Freehold

7 **180 West George Street**
Glasgow
52,100 sq ft – Freehold

8 **401 Grafton Gate East**
Milton Keynes
57,100 sq ft – Freehold

9 **Queens House**
Glasgow
49,400 sq ft – Freehold

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

11 **Atlas House**
Marlow
25,400 sq ft – Freehold

12 **Sentinel House**
Fleet
33,500 sq ft – Freehold

13 **Longcross Court**
Cardiff
72,100 sq ft – Freehold

14 **Waterside House**
Leeds
25,200 sq ft – Freehold

Retail and Leisure

The retail and leisure portfolio, which accounts for 18% of the portfolio, delivered the weakest performance of the year. This was a result of ongoing changes in shopping patterns and weak occupational demand resulting in negative rental growth in a lot of markets.

Stanford Building in Covent Garden, which has both retail and office use, is our largest element of the retail portfolio at 28%, of the balance, 40% is in the retail warehouse sector, 22% in high street retail and 10% in hotel and leisure assets.

Our investment into the retail parks in Bury and Swansea has enabled us to retain and attract new occupiers.

By working with our occupiers and through active management, we have been able to temper the declines in value over the period by extending income, letting space and achieving rents overall very close to the ERV.

On a like-for-like basis, our retail and leisure portfolio value decreased by £15.8 million or 11.5% to £121.7 million, and the annual rental income decreased marginally by £0.2 million or 2.6% to £7.3 million. The portfolio has an average weighted lease length of 8.9 years and £1.9 million of reversionary potential to £9.2 million per annum.

Occupational demand has been weaker in the retail warehouse and restaurant sector, with high street shops and London seeing slightly better demand. We have seen negative rental growth of 8.0% across the portfolio and occupancy is 75%, primarily due to key voids at Stanford Building, London and Angouleme Retail Park, Bury. We invested £3.3 million into the retail portfolio during the period.

Portfolio activity

At Parc Tawe Retail Park, Swansea we carried out a comprehensive refurbishment of the park to include new signage, modernisation of the units and environmental improvements, for example changing to LED lighting. This has created an improved shopping environment for customers and enabled us to attract new occupiers. Once we completed enabling works, Lidl relocated to the former Homebase unit and, following practical completion of refurbishment works, we completed a new 15-year lease at their former unit to Farmfoods at a stepped rent to £0.1 million per annum, 14% below ERV. We also agreed to extend Pets at Home's lease, expiring in 2022, by a further five years and rebased their rent to £0.1 million per annum from completion, a reduction of 18%, but 10% ahead of the preceding ERV. We have one unit available to lease, accounting for 13% of the park by floor area.

At Angouleme Way Retail Park, Bury we carried out a comprehensive refurbishment to update the park for customers and to enable us to attract new occupiers and retain existing ones. Argos renewed on a ten-year lease at a rent of £0.2 million per annum, which was 16% ahead of ERV. Another unit was let to a regional occupier on a five-year lease, subject to a break in three years, at a stepped rent to £0.1 million per annum, in line with ERV. We have two units available to lease, accounting for 40% of the park by floor area.

At the Crown & Mitre complex in Carlisle, we settled the hotel rent review, securing a 42% uplift to £0.2 million per annum, 8% ahead of ERV. There is a historic lane adjacent to the property, with small shops and local occupiers. Working with our occupiers, we refurbished the lane to create a significantly better environment in keeping with the Grade II property and attracting higher footfall for our occupiers.

At Scots Corner, Birmingham we renewed HM Government's lease for a further ten years, subject to break in 2024, at a rent of £0.1 million per annum, in line with ERV. Towards the end of the year, we got two adjoining shop units back due to insolvencies, securing a payment on one of them. These are currently being reconfigured and one of the units is under offer.

Our largest retail void is the unit at Stanford Building WC2 where the refurbishment of the whole building is currently underway and is due to complete in the summer. The unit is in a prime location and provides unique space arranged over three floors. It is the first time the unit has been available to lease in over 100 years and we expect good interest in due course.

Outlook

The retail and leisure sector continues to undergo structural change due to evolving shopping habits, which have resulted in an oversupply in most markets with occupiers being able to negotiate lower rents and higher incentives. The Covid-19 pandemic has considerably worsened the outlook, and it is likely that a number of less resilient businesses will not survive, further increasing the supply of floorspace.

We are working on a number of schemes where we envisage changing the use from retail or leisure to other uses and we will resume with progressing these plans once restrictions are lifted.

We are working with our occupiers to assist them where we can, by for example, postponing rental payments or providing upfront incentives to remove future break options and/or extend leases. The lockdown has caused significant cash flow issues to a lot of businesses in this sector and until shops, gyms, hotels and restaurants are allowed to open, we cannot see an improvement outside of the supermarket sector. The full impact of the Covid-19 pandemic remains to be seen and this reinforces our portfolio positioning.

Key metrics

£121.7m
2020 value
(2019: £137.5m)

0.8m sq ft
Internal area
(2019: 0.8m sq ft)

£7.3m
Annual rental income
(2019: £7.5m)

£9.2m
Estimated rental value
(2019: £10.0m)

75%
Occupancy
(2019: 77%)

17
Number of assets
(2019: 17)

Long Acre, Covent Garden
London, WC2

Locations

1
Stanford Building
London WC2
19,600 sq ft – Freehold

2
Queens Road
Sheffield
105,600 sq ft – Freehold

3
Parc Tawe North Retail Park
Swansea
116,700 sq ft – Leasehold

4
Gloucester Retail Park
Gloucester
113,900 sq ft – Freehold

5
Angouleme Retail Park
Bury
76,200 sq ft – Free/Leasehold

6
Thistle Express
Luton
81,600 sq ft – Leasehold

7
Regency Wharf
Birmingham
44,300 sq ft – Leasehold

8
Crown & Mitre Complex
Carlisle
23,800 sq ft – Freehold

9
Scots Corner
Birmingham
30,000 sq ft – Freehold

10
53-57 Broadmead
Bristol
10,400 sq ft – Leasehold

11
62-68 Bridge Street
Peterborough
88,700 sq ft – Freehold

12
78-80 Briggate
Leeds
7,700 sq ft – Freehold

13
17-19 Fishergate
Preston
59,900 sq ft – Freehold

14
72-78 Murraygate
Dundee
9,700 sq ft – Freehold

15
7-9 Warren Street
Stockport
8,700 sq ft – Freehold

16
6-12 Parliament Row
Hanley
17,300 sq ft – Freehold

17
18-28 Victoria Lane
Huddersfield
14,600 sq ft – Leasehold

Financial Review

In the context of uncertain and difficult market conditions, our results for the year were positive. The total profit recorded was £22.5 million, compared to £31.0 million for 2019, reduced due to lower valuation movements, particularly in the final quarter of the year. Our EPRA earnings declined to £19.9 million, and we maintained a covered dividend. Earnings per share were 4.1 pence overall (3.7 pence on an EPRA basis), and the total return based on these results was 4.5% for the year.

The Covid-19 pandemic is having a significant impact on businesses throughout the UK. For Picton, like many commercial landlords, the first tangible consequence was on the March rent collection date. We received 82% of the rent due, and this is discussed more fully below, along with the actions being taken. We also experienced a decline in the portfolio valuation at the end of March, principally on the retail assets. We expect these themes to continue through the course of the pandemic.

Net asset value

The net assets of the Group increased to £509.3 million, largely following the equity raise in the year. The chart below shows the components of this increase over the year. The EPRA net asset value remained at 93 pence.

	£m
March 2019 net asset value	499.4
Income profit	19.9
Valuation movement	(0.9)
Profit on asset disposals	3.5
Issue of ordinary shares	7.0
Share-based awards	0.3
Purchase of shares	(0.9)
Dividends paid	(19.0)
March 2020 net asset value	**509.3**

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).

	2020 £m	2019 £m	2018 £m
Net asset value – EPRA and IFRS	**509.3**	499.4	487.4
Fair value of debt	**(29.6)**	(24.8)	(21.1)
EPRA triple net asset value	**479.7**	474.6	466.3
Net asset value per share (pence)	**93**	93	90
EPRA net asset value per share (pence)	**93**	93	90
EPRA triple net asset value per share (pence)	**88**	88	87

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 EPRA Disclosures section which starts on page 112.

Income statement

Total revenue from the property portfolio for the year was £45.7 million. On a like-for-like basis, rental income on an EPRA basis has reduced compared to the previous year. Throughout the year we have been carrying out a number of refurbishment projects aimed at improving the quality of space at those assets and so improving letting prospects. This is discussed further in the Portfolio Review, but the impact on this year's results is lower net property income.

The table below sets out the rent collection statistics for the March quarter, analysed by sector. The greatest impact, not unexpectedly, is in the retail sector.

Rent due 25 March to 1 April	Industrial (%)	Office (%)	Retail and Leisure (%)	**Total (%)**
Collected	84	89	67	**82**
Moved to monthly	1	1	8	**2**
Deferred	6	5	8	**6**
Concessions agreed	–	1	–	**–**
Active management	–	–	4	**1**
Outstanding	9	4	13	**9**

The rent demanded on the March quarter day is in advance, up to the June 2020 quarter day. We have, however, made increased provisions against our tenant debtors in this financial year, and this has impacted our rental income by £0.5 million.

Administrative expenses for the year were £5.6 million, so slightly lower than the £5.8 million in 2019. These include the one-off costs of REIT conversion.

Realised and unrealised valuation gains on the portfolio were £2.6 million for the year, lower than the gains of £11.3 million reported last year. This is very much a reflection of the commercial property market, and particularly the sentiment in the retail sector, where there have been well publicised issues of retail failures.

Interest payable is lower this year compared to 2019, at £8.3 million. This reflects a full year's saving following the Canada Life repayment in 2018, and also the repayment of the current revolving credit facilities.

This is the first full year that we have reported as a UK REIT. All of the profits from the property rental business are exempt from UK tax. We must, as a REIT, distribute at least 90% of these profits to shareholders as Property Income Distributions. Based on our initial submitted tax returns to date, we have fully complied with this requirement. This year we have received a small tax repayment, an adjustment arising from previous years.

EPRA earnings for the year were £19.9 million, lower than the £22.9 million stated in 2019, principally for the reasons stated above.

Dividends

The annual dividend rate has remained at 3.5 pence, with total dividends paid out of £19.0 million. Dividend cover for the full year was lower than last year at 105%.

Following the year end we have announced a 29% reduction in the dividend rate, which was applied to the dividend paid in May, due to the uncertainty caused by the Covid-19 pandemic.

Investment properties

The appraised value of our investment property portfolio was £664.6 million at 31 March 2020, down from £685.3 million a year previously. This year we have disposed of two buildings, for net proceeds of £33.1 million, realising a combined gain of £3.5 million compared to last year's valuation. £8.9 million of capital expenditure was invested back into the existing portfolio. The overall revaluation movement was a small loss of £0.9 million, principally arising in the final quarter of the year, as the impact of the Covid-19 pandemic was felt. With the reduction in investment market activity and less evidence available, the independent valuers included a 'material uncertainty' clause in the March valuation.

At 31 March 2020 the portfolio comprised 47 assets, with an average lot size of £14.1 million.

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

Borrowings

Total borrowings were £167.5 million at 31 March 2020, with the loan to value ratio having reduced to 21.7%. The weighted average interest rate on our borrowings has increased slightly to 4.2%, while the average loan duration is now 9.9 years.

Our senior loan facility with Aviva reduced by the regular amortisation of £1.2 million in the year.

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

During the year we repaid all the outstanding amounts drawn under our revolving credit facilities, leaving £49 million undrawn at the year end. The year-end interest rate payable on these loans was around 2.7%.

Subsequent to the year end, we have completed a new single revolving credit facility, 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 payable at 150 basis points over LIBOR, which is at a lower rate than the facilities it replaces.

Loan arrangement costs are capitalised and are amortised over the terms of the respective loans. At 31 March 2020, the unamortised balance of these costs across all facilities was £2.3 million.

The fair value of our borrowings at 31 March 2020 was £197.0 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:

	2020	2019	2018
Fixed rate loans (£m)	**167.5**	168.7	203.5
Drawn revolving facilities (£m)	**–**	26.0	10.5
Total borrowings (£m)	**167.5**	194.7	214.0
Borrowings net of cash (£m)	**143.9**	169.5	182.5
Undrawn facilities (£m)	**49.0**	25.0	40.5
Loan to value ratio (%)	**21.7**	24.7	26.7
Weighted average interest rate (%)	**4.2**	4.0	4.1
Average duration (years)	**9.9**	9.8	10.3

Cash flow and liquidity

The cash flow from our operating activities was £13.5 million this year, down from the 2019 figure. Proceeds from asset sales were used to finance the net reduction in borrowings. Dividend payments of £19.0 million were made in the year. Our cash balance at the year end stood at £23.6 million.

Share capital

During the year the Company issued 7,551,936 new ordinary shares of no par value, for gross proceeds of £7.1 million, bringing the total shares in issue to 547,605,596.

The Company's Employee Benefit Trust acquired a further 954,000 shares, at a cost of £0.8 million, during the year to satisfy the future vesting of awards made under the Long-term Incentive Plan, and now holds a total of 2,103,683 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

22 June 2020

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 identified, measured, managed, mitigated and reported 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 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	
2 Market cycle	
3 Regulatory and tax	
4 Climate change	
5 Portfolio strategy	
6 Investment	
7 Asset management	
8 Valuation	
9 People	
10 Finance strategy	
11 Capital structure	

Covid-19

The current global Covid-19 pandemic is causing an unprecedented level of disruption to the global economy. Many governments, including the UK, have imposed lockdowns, giving rise to the closure of some businesses. It is not clear how long the restrictions will last nor what the impact on the UK economy will be. Some of our occupiers are facing financial difficulties and we are working with them to find solutions that both help them and mitigates any impact on our capital values and cash flow.

The risks associated with this pandemic fall across many of the principal risks set out here, and in many cases increase the potential impact significantly. There has already been an impact on the Group's cash flow, and it is considered likely that this will continue in at least the short-term.

Picton has 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 a number of transactions have been put on hold since the pandemic began to affect the UK economy. There are few investment transactions taking place to provide comparable evidence for valuations, and as a result our external valuers have added a material valuation uncertainty clause to their report as at 31 March 2020, in line with market practice.

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

Principal Risks continued

Brexit

Although the UK has now left the EU and is in the transition period, there is still uncertainty regarding a future trading relationship. The transition period ends on 31 December 2020 and in the absence of any agreement being reached there could be further disruption to the UK economy.

We have considered the potential impact from a disruptive Brexit in a number of scenarios included in our Viability Statement.

Emerging risks

During the year the Board has considered themes where emerging risks or disrupting events may impact the business. These may arise from behavioural changes, political or regulatory changes, advances in technology, environmental factors, economic conditions or demographic changes. As noted above Covid-19 may also have an impact on a number of these themes. Some are already considered to be principal risks in their own right such as the impact of climate change, others are reviewed as part of the ongoing risk management process.

Risk management framework

Board
- Has overall responsibility for risk management including approval of the risk management framework, risk policies and risk appetite
- Determines business model

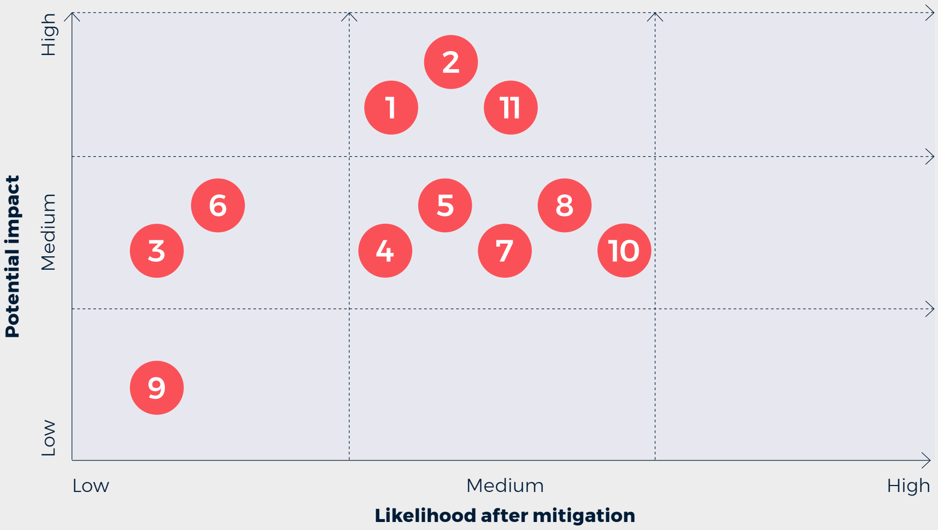
Executive Committee
- Implements strategy and risk policy
- Identifies and assesses risks
- Carries out risk management, mitigation and reporting

Audit and Risk Committee
- Reviews and recommends risk management framework including risk policies
- Reviews detailed risk matrix and principal risks
- Reviews internal controls and the testing of those controls

Management Committees
- Review specific transaction risks
- Consider impact of forthcoming legislation on the Group's risks
- Review operational risk

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

Likelihood after mitigation



Read more on pages 43–45

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 risks around the UK economy have increased with the Covid-19 pandemic. Although there is more certainty regarding Brexit, no future deal with the EU has yet been agreed and this may lead to further uncertainty later in 2020.

Connected KPIs

A
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

There may be increased volatility in the property market as a result of the current economic restrictions. Official forecasts indicate a substantial fall in UK GDP this year. The impact of Covid-19 may also cause businesses to review their existing operating models (e.g. future need for office space).

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.

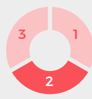
Commentary

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.

All refurbishment projects include environmental considerations to ensure buildings are maintained to current standards.

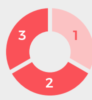
Commentary

Climate change is now considered to be a principal risk given its increasing importance and the impact of real estate on the environment.

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

Continued divergence of returns across sectors, coupled with the impact of Covid-19 particularly on retail and leisure assets, have increased this risk.

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

The importance of effective asset management has been heightened by the Covid-19 pandemic and its impact on occupiers' businesses.

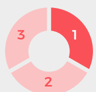
Connected KPIs

C

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 against financial covenants.

Commentary

The current economic situation could lead to negative sentiment and see further falls in asset values.

Connected KPIs

A

C

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

The Group has a stable and aligned team in place.

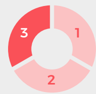
Significant efforts have been, and will continue to be made to ensure the safety and well-being of the Group's employees through the course of the Covid-19 pandemic.

Connected KPIs

H

L

Strategic Pillar



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 re-financing 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

Although the Group has headroom against its loan covenants, significant falls in valuations or income during the current Covid-19 crisis could lead to pressure on covenants. However, a number of stress tests have been conducted to assess the potential risk, which the Board continue to monitor.

Connected KPIs

C

D

E

Strategic Pillar

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

Although the Group has a modest level of gearing, falls in capital values will be magnified by the impact of gearing.

Connected KPIs

A

C

E

G

H

Strategic Pillar

Our responsible and ethical approach

At Picton 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.

This report looks at the components of sustainability – environmental, social and governance – how we approach each of these, and our progress in each area.

Highlights of the year

- Carried out materiality assessment of relevant sustainability issues
- Incorporated sustainability into our corporate strategy
- Improved portfolio EPC ratings
- Incorporated energy efficiency measures into building refurbishments
- Further developed our occupier and employee engagement programmes
- Achieved EPRA Gold for 2019 Sustainability Report

Visit our website
www.picton.co.uk

Materiality assessment

During the year we re-visited our approach to sustainability with a view to integrating it within our strategy. Previously we had considered sustainability in terms of the environmental impact of the portfolio, and how we could minimise this. We set a number of targets in 2016 and with many of these having been met, considered that it was the right time to re-evaluate sustainability issues important to us and all our stakeholders.

We carried out a materiality assessment in order to identify those sustainability issues that were most relevant to Picton. The findings will help us to determine our sustainability priorities in the light of our overall business strategy. The assessment was carried out in conjunction with Emperor, an independent consultant. The process included a robust analysis of potential material issues, both internal and external, and stakeholder interviews.

At the end of the assessment there were 12 material sustainability issues identified. These were aligned within a sustainability framework and our overall corporate strategy.

Corporate strategy

In determining our new corporate strategy, we have established three new strategic pillars: Portfolio Performance, Operational Excellence and Acting Responsibly. Within each of these pillars, we have determined a number of specific strategic priorities, which are measured by our key performance indicators. The identified material issues are all incorporated within these new strategic priorities, and this year we will be setting clear targets against each of these so that we can effectively measure our sustainability performance. For more information please see our Sustainability Report.

Environmental

It is recognised that commercial buildings in the UK are a key source of emissions and that as a responsible landlord we have a duty to control and reduce the environmental impact of our assets. We continue to assess the environmental performance of our portfolio through our consultants at CBRE, who engage with property managers and occupiers to implement sustainability improvements across the portfolio.

What we have done this year

- Progressed our EPC management programme
- Achieved a 7% increase in our A to D EPC ratings
- Incorporated energy efficiency measures into all major refurbishment projects
- Developed refurbishment checklist to assess projects against industry standards and best practice
- Continued to implement green clauses in all our new leases, and developed a tracker to monitor this
- Carried out ESG audits on four energy intensive properties within the portfolio
- Installed a green wall as part of office refurbishment

What we will do next year

- Carry out further ESG audits
- Further increase our proportion of A to D EPC ratings
- Investigate carbon offsetting and biodiversity opportunities

EPC management

We have a continuous programme of monitoring EPCs in place throughout the portfolio. During the year we completed 19 EPCs at higher ratings than previously and achieved a 7% increase in A to D ratings compared to last year. All EPCs expiring within the next 12 months will be reviewed to assess where environmental measures can be put in place to improve the rating.

Environmental initiatives

This year there have been a number of building refurbishment projects commenced, and we have ensured environmental issues have been fully incorporated into these. We have considered where energy efficiency measures could be included within the refurbishments, such as new lighting, improved plant and equipment, solar panels, new building management systems, insulation and new water systems. We have also introduced more occupier amenities where possible, such as cycle storage facilities, changing rooms and showers.

More detail on these projects is included within this year's Sustainability Report, including case studies.

We have installed two beehives at our Queens House property in Glasgow. The bee population at these hives has more than doubled since they were installed in 2018, helping the pollination of surrounding plant life. These hives have also been successful in engaging with our occupiers at the building, with workshops and presentations taking place.

This year we completed scoping exercises at several buildings to locate viable sites for further beehives and an installation at our Metro building in Salford is underway.

Transportation is a major source of greenhouse gas emissions worldwide. We recognise our role in supporting our occupiers' transition to a more sustainable solution and have been working to identify buildings where electric charging points can be installed. We are pleased to have installed charging points at two of our properties – 180 West George Street and Easter Court, Warrington. In addition, we will be installing 20 charging points at Metro in Salford this year. We are investigating where else we can install charging points across the portfolio.

At Tower Wharf, our multi-let office building in Bristol, we carried out a refurbishment of the reception area. As part of this we installed a green wall, which comprises moss from sustainable sources. The moss improves the air quality and reduces the carbon within the building. We expect energy bills to be reduced as the moss cools the area in summer and helps insulate it in winter.

Green leases

We have now introduced new sustainability clauses into our standard lease agreements – so-called 'green lease clauses'. These clauses set out the responsibilities of both Picton and the occupier with regard to sustainability issues.

We have developed three levels of clauses, from basic through to leader, where there are greater expectations on sustainability issues and require a more collaborative approach between Picton and the occupier. The increasing importance of sustainability to many businesses has led them to re-evaluate how they use space and these clauses help to provide the right framework.

We have also implemented a 'green lease tracker' this year. The tracker allows us to keep a record of all green leases we have in place, with a scoring system so that we can measure and improve on the number of green clauses we have.

ESG audits

We have carried out ESG audits at four of our multi-let office properties in the portfolio. These were at Tower Wharf in Bristol, Metro in Salford, 50 Farringdon Road in London and Queens House in Glasgow. The audits were carried out by qualified engineers from our sustainability advisers CBRE. The audits focused on the key areas of energy usage and efficiency, water and waste management, and provided a summary of recommendations of energy saving measures, and the associated costs.

We have developed an action plan for each property to implement the recommendations as required.

We will carry out more ESG audits at our other multi-let offices in this coming year.

Social

Our people

We aim to attract and retain employees who can thrive at Picton and realise their full potential. We value the contributions made by the whole Picton team, with a strong and open company culture that was co-created by our employees. We aim to have a positive business environment consistent with our values, with equal opportunities for all.

What we have done this year

- Carried out an employee engagement survey across the whole team
- Held a forum for employees to raise matters with the designated Non-Executive Director responsible for employee engagement
- Maintained alignment with further LTIP awards to the whole team
- Held an offsite meeting for the whole team, including a tour of local Picton properties

What we will do next year

- Build on the employee survey and engagement carried out this year
- Increase training and personal development opportunities for employees

Employee engagement

Last year we appointed one of our Non-Executive Directors, Maria Bentley, to be responsible for employee engagement. This year we carried out a survey across the whole team, and the results of this were then discussed at a team meeting attended by Maria. There were a range of questions put to the team, and the results were positive. Of the questions asked, 93% were answered either Strongly Agree or Agree. We have used the results to prepare an Employee Satisfaction score, and have introduced this as a new key performance indicator this year. We intend to repeat the survey this year.

One of the issues raised through the survey was the level of employee training. As a result we have increased this, as set out below, and have encouraged employees to identify training needs and courses that they would benefit from.

Wellbeing

We believe that having a happy and healthy team is important to the success of the business. In this year's employee survey the whole team were positive about their work/life balance.

Our commitment to providing a safe and healthy working environment for our employees is achieved by:

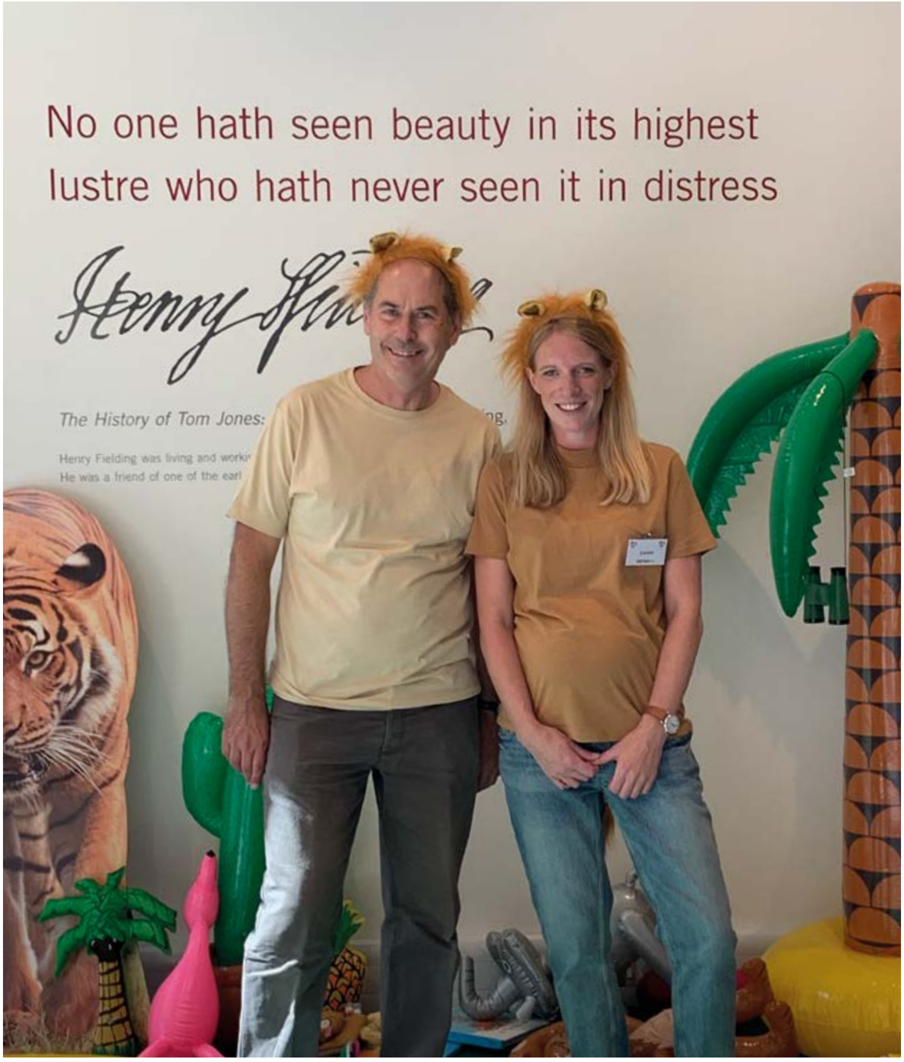
- Adhering to the appropriate health and safety standards
- Providing a working environment that enables employees to work effectively and free from unnecessary anxiety, stress and fear
- Offering private health benefits to all employees
- Ensuring employees can report inappropriate behaviour or concerns through the whistleblowing policy Having appropriate family friendly policies

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	5	1
Rest of team	4	3
Total	**9**	**4**



Picton team helping at jungle themed Coram adoption day

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 has increased from 1.2% to 1.5%, on a time spent basis.

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' work 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.

Charity and local communities

We are committed to improving the impact of our buildings on local communities, whether providing space to local businesses, improvement of local areas or minimising the environmental impact of buildings themselves. We also support local communities through our occupier led charitable matched giving initiative.

What we have done this year

- Made charitable donations of £6,600
- Developed a partnership with Coram, a children's charity
- Increased the opportunities for employees to volunteer their time with Coram

What we will do next year

- Increase our donations to charitable causes, especially as the Covid-19 situation continues
- Build on our partnership with Coram

We continue to support a variety of charities, principally through The Funding Network, whose aim is to achieve long-term social change. The Funding Network enables individuals to join together to support social change projects and have raised over £13 million for over 2,000 diverse local, national and international projects.

Our Responsibility Committee encourages our employees to play a positive role in community activities and works with Coram, a charity that supports vulnerable children, to provide team volunteering opportunities. This year employees have volunteered at an adoption day and helped at the annual Coram Christmas carol concert. One of the Picton team has agreed to run the London marathon to raise funds for Coram, which is now due to take place in October.

As well as our occupier matched giving policy, we also offer matched giving for employees who are raising money for charity.

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. We use our expertise in asset management to provide modern flexible space that is safe, clean and energy efficient. We believe that it is important to engage with our occupiers on sustainability. In this way we can constantly strive to reduce our environmental impact.

What we have done this year

- Implemented sustainability workshops at a number of properties
- Carried out an occupier survey
- Included new occupier amenities when carrying out refurbishments, such as showers and cycle racks
- Continued with our policy of occupier matched giving for charitable donations. Eight occupiers took advantage of this policy over the year

What we will do next year

- Work with our occupiers to prepare our buildings for re-occupation
- Carry out more sustainability workshops
- Continue with providing occupier amenities when carrying out building improvements

Governance

The Board is responsible for the long-term success of the business, and for establishing its culture and values, including leading on sustainability. We have in place a framework of corporate governance and report against the 2018 UK Corporate Governance Code. The Governance section of this Report sets this out in more detail. We will act in a fair and responsible manner. This section sets out how sustainability is included within our business principles.

What we have done this year

- Included responsible business principles in our corporate strategy
- Carried out a materiality assessment of relevant issues
- Published our 2019 Modern Slavery Statement

What we will do next year

- Develop and further communicate our supplier code of conduct
- Join relevant industry leadership schemes

Responsibility Committee

We have a Responsibility Committee in place which is chaired by Andrew Dewhirst, and also comprises Tim Hamlin, our Senior Asset Manager, and Louisa McAleenan, our Research Analyst. The Committee normally meets monthly and its remit covers all aspects of sustainability and environmental initiatives, ESG reporting, health and safety, employee engagement and wellbeing, and relevant regulatory issues. The Committee also meets regularly with CBRE, who are consultants to the Group and carry out all necessary ESG data collection.

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 similarly from our suppliers.

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 2020 Sustainability Report we detail our GHG emissions for the last six years, showing how our reporting has evolved since 2014. For this Report, we have revised our reporting period to fiscal year reporting to match our financial reports.

Scope 1

Scope 1 emissions account for 1,137 tCO_2e of our total emissions, which is a decrease of 7% from previous year. This is due to the implementation of energy efficiency measures, an increase in data quality and the disposal of sites in 2018 and 2019. Excluding the impact of acquisitions and disposals and void units, like-for-like Scope 1 emissions have decreased by 11% due to project works at various sites which includes building management system upgrades, control optimisation projects and boiler replacements.

Scope 2

Scope 2 emissions account for 2,295 tCO_2e, which is a decrease of approximately 13% from previous year. Scope 2 emissions have seen the greatest impact from the decarbonisation of the national grid. With Scope 2 emissions being the largest contributor to our emissions which we can directly control, it is positive to also see a 4% decrease in like-for-like emissions. This is largely thanks to energy efficiency projects at Atlas House, Marlow, 180 West George Street, Glasgow and Metro, Manchester, where various lighting, and air conditioning related works have been completed. We hope to see further improvements in 2020/21 when the projects will have had a full reporting year to realise their benefits.

Scope 3

Scope 3 emissions account for 3,628 tCO_2e, which is a 32% decrease from previous year due to Covid-19 impacting occupier data accessibility. Due to the variance in occupier data that we receive it is difficult to read too much into the large decrease in Scope 3 emissions, with Scope 1 and 2 emissions remaining our priority for improvement measures. We hope to continue to gather occupier data throughout this year to ensure we have a more complete data set for better comparison.

Methodology

We have reported on all the emission sources required under the core requirements of EPRA's 'Best Practices Recommendations on Sustainability Reporting' 2017, 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 2017. Where data was unavailable in kg 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 continue producing increasingly useful normalisation and intensity metrics.

Picton has continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using Picton's 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 2017.

Reporting against EPRA sustainability best practice

Our overall energy, greenhouse gas, water and waste usage by sector is reported within our 2020 Sustainability Report.

The EPRA sustainability measures are reported in the 2020 Sustainability Report.

		2020		2019		2018	
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	**1,137**	**0.005**	1,220	0.006	1,260	0.006
Electricity, heat, steam and cooling purchased for own use	2	**2,295**	**0.014**	2,648	0.015	3,316	0.015
Business travel	3	**4**	**N/A**	8	N/A	7	N/A
Occupier data	3	**3,534**	**0.004**	5,274	0.003	9,566	0.005
Office premises	3	**17**	**N/A**	10	N/A	13	N/A
Landlord water and treatment	3	**53**	**0.001**	55	0.001	53	0.001
Landlord waste	3	**20**	**0.000**	21	0.000	21	0.000
Total		**7,060**	**0.024**	9,236	0.025	14,236	0.027

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. In doing so, the Directors have regard for the likely long-term consequences of decisions, maintaining a reputation for high standards of business conduct, and the need to act fairly between stakeholders. This year, to illustrate this, we have explained the Board's decision-making process in relation to Covid-19.

The Directors also have regard for our employees' interests, business relationships with our wider stakeholders, the impact of our operations on communities and the environment in which we operate. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year. Our key stakeholders and the primary ways in which the Board engages directly or delegates responsibility for engagement to management is set out below.

Engagement with stakeholders

Our shareholders

As owners of Picton 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. 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 business 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. During the year we undertook an employee survey. The results of this survey were discussed at a forum attended by Maria and the employees, without the Executive Directors present. The views of the employees on a number of issues, including the office accommodation and training, were reported directly back to the rest of the Board.

Local communities and the environment

We are committed to improving the impact of our buildings on local communities, whether providing space to local businesses, improvement of 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 receives regular reports of progress on sustainability matters.

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

The impact of Covid-19

The most significant issue that the Board has given due consideration to in the past 12 months has been around the impact of Covid-19 on the business and our response to it. The Board considered what would be in the long-term interests of all of our stakeholders in the business before coming to a decision.

Restrictions due to Covid-19 were introduced by the UK Government in March 2020, with the lockdown coming into effect from 23 March 2020. Many businesses were shut from that time, particularly in the retail and leisure sectors. The Government introduced a number of measures designed to help businesses and individuals who would suffer financial hardship as a result of the restrictions.

While the Government restrictions are still in place it is uncertain the extent to which there will be a loss of income to the business for the foreseeable future. The Board had to consider therefore what mitigating actions would be required to protect the long-term viability of the business.

The options and potential consequences for stakeholders were considered to be:

	Actions
Suspension or reduction of dividend	The Board recognised the value to shareholders of regular dividend payments. A suspension of dividends, even on a temporary basis, would have an adverse impact on investors.
Increase in borrowings to fund cash shortfall	The Board reviewed forecast cash scenarios and considered that the use of borrowings would be appropriate in limited circumstances but that any significant increase in borrowings would potentially put pressure on lending covenants which would not be in the long-term interests of the Company.
Rent concessions	The Board recognised that some occupiers were experiencing financial difficulties as a result of the restrictions, and consequently their ability to make rent payments. We started to open dialogues with occupiers as the March 2020 rent quarter day approached. Requests from occupiers experiencing financial difficulties were considered on a case-by-case basis, with the aim of assisting occupiers while minimising the impact to both Picton's capital values and cash flow. Our rent collection for the March quarter is currently 82%, although the extent to which uncollected rent is a deferral or a permanent loss of revenue was, and still is, unclear.
Other cost reduction measures including employee costs	We have looked to reduce the service charge as much as possible in the short-term, especially in relation to the office portfolio where we are seeing lower occupancy levels currently. This is to assist our occupiers with cash flow, acknowledging the current business climate. We continue to monitor the position to ensure the services provided match reoccupation plans in place at each property. The Board decided that it would not be in the interests of the business to furlough employees or seek other Government assistance. Picton has a small and highly motivated team who are aligned to the success of the business.
Reduction or delay of capital expenditure programme	The capital expenditure programme was reviewed on a case-by-case basis. Ongoing projects would be completed, while non-essential works would be delayed. However, where capital expenditure was required to either facilitate future lettings or protect the capital values of properties, the Board determined that these projects should go ahead on an appropriate timescale.

The Board has concluded it is appropriate to reduce the level of dividend during this period and until market conditions become clearer. This change provides the Company with flexibility in managing the property portfolio and the ability to support our occupiers, with a view to creating longer-term value for shareholders, while maintaining balance sheet strength. Borrowings will be utilised to a limited extent to fund essential capital expenditure.

Introduction to the Corporate Governance Report

Nicholas Thompson, Chairman

This has been the Company's first full year as a UK REIT.

Dear Shareholder

I am pleased to introduce our 2020 Corporate Governance Report.

Board composition

In last year's report I stated that I intended to step down as Chairman once a suitable successor had been appointed, and that the search process for that successor had begun. To that end we appointed Nick Wiles to the Board on 1 January this year, and it was my intention to retire after the publication of these annual results. Unfortunately, after only a short time on the Board, Nick has been appointed unexpectedly as the Chief Executive of another listed company and is unable to take on the Picton Chairman role as well. Hence he has resigned from the Board with effect from 20 May 2020. I would like to thank him for his contribution during his tenure on the Board and wish him well in his new role.

The Board has asked me to remain as Chairman until a new appointment has been made, and I was very pleased to accept that.

We have therefore started the search process again for a replacement, and I hope we will be making an announcement on this in due course. Maria Bentley has again agreed to become Chair of the Nomination Committee to lead the search for suitable candidates.

Succession

We have also commenced the search process for a new Director to replace Roger Lewis, who has now served on the Board for ten years, and will step down once his successor has been appointed. We expect that the new appointee will take over as Chair of the Property Valuation Committee.

The selection process for a new appointment is described in more detail in the Nomination Committee Report.

Governance

This year we are reporting against the 2018 Corporate Governance Code for the first time. The Code contains updated Principles of good corporate governance. The application of these new Principles is described within the following Corporate Governance Report, and also within the various Committee reports. We have set out how we have engaged with all of our stakeholders within the new Section 172 Statement and also within Acting Responsibly.

Our Compliance Statement is set out within the Directors' Report.

This has been the first full year as a UK REIT, with management established in the UK. We have maintained the same structure of Board and management committees, and I believe these are working well, and provide an appropriate framework for the governance and decision-making within the Company.

Our people and culture

We have further developed our programme of employee engagement this year. Previously we had appointed Maria Bentley as our Non-Executive Director with responsibility for employee engagement. This year we have carried out an employee survey, and this was followed up with a discussion forum attended by Maria and the team, but without the Executive Directors. The issues raised through the survey were covered and as a result a number of actions were agreed and implemented.

Our team is key to the success of the business and underpins our occupier focused approach. This year there have been some changes made to the team, including the appointment of a new Head of Occupier Services. This new role is focused on ensuring that our occupiers receive excellent property management, in line with our Picton Promise.

The Responsibility Committee has extended the Company's relationship with Coram, a charity helping and supporting vulnerable children and young people. Some team members have volunteered at Coram events, and we hope this will be maintained despite these current difficult circumstances. This relationship is in keeping with the Company's culture and values, where we encourage employees to take part in community and charitable activities.

The wellbeing of our team is uppermost in these extraordinary circumstances and the Board fully supports the efforts being made to maintain team activities and morale while working remotely.

Board evaluation

This year we carried out an internal evaluation of the Board, based on a detailed questionnaire prepared by the Company's Administrator. All of the Directors completed the questionnaire, and the anonymised results were then discussed by the Board at their next meeting.

As part of the evaluation this year we considered the committee structure, particularly the need for a separate Property Valuation Committee, and concluded that we would retain the existing structure.

It was concluded that the Board was working effectively, as were the Board Committees. A number of specific actions were identified, and these have been addressed.

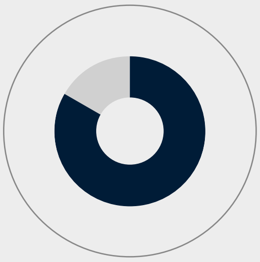
Nicholas Thompson
Chairman

22 June 2020

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.

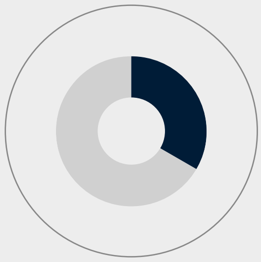
Diversity of experience



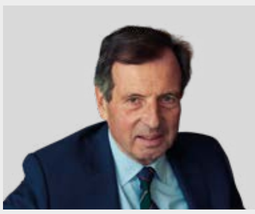
83%
Real Estate

67%
Strategy and Governance

67%
Corporate finance and public companies



33%
Finance and Accounting



Nicholas Thompson
Chairman

Appointed to the Board
September 2005

Responsibilities
Ensuring the Board is effective in setting and implementing the Company's direction and strategy, including reviewing and evaluating the performance of the Chief Executive.

Key strengths and skills
- Chartered Surveyor with 44 years' experience, 36 of which are in property investment management
- Clear vision and strong influencing skills

Principal external commitments
- Director of the Lend Lease Retail Partnership
- Independent Director of the Association of Real Estate Funds

Previous experience and appointments
- Director and Head of Fund and Investment Management, Prudential Property Investment Management
- Fellow of the Royal Institution of Chartered Surveyors.

Michael Morris
Chief Executive

Appointed to the Board
October 2015

Responsibilities
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
- Member of the Investment Property Forum

Andrew Dewhirst
Finance Director

Appointed to the Board
October 2018

Responsibilities
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
- Associate member of the Institute of Chartered Accountants in England and Wales

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

Appointed to the Board
October 2017

Responsibilities
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 subsectors

Principal external commitments
- Board member and Chairman of the Audit Committee, Assured Guaranty Europe
- Board member, Armour re (UK)
- Board member and Chairman of the Finance Committee, The Royal Brompton and Harefield Foundation Trust
- Senior adviser to UK Government Investments

Previous experience and appointments
- Partner, PricewaterhouseCoopers LLP (restructuring and corporate valuation practices)
- Non-Executive Director, L&F Indemnity

Maria Bentley
Chair of Remuneration Committee,
Chair of Nomination Committee

Appointed to the Board
October 2018

Responsibilities
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 Remuneration Committee

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

Roger Lewis
Chair of the Property Valuation Committee

Appointed to the Board
March 2010

Responsibilities
Overseeing the review of the quarterly valuation process and making recommendations to the Board as appropriate.

Key strengths and skills
- Over 40 years' experience in residential and commercial property
- Public Company experience
- Corporate finance experience

Principal external commitments
None

Previous experience and appointments
- Chairman and Director, Berkeley Group Holdings PLC
- Group Chief Executive Officer, Crest Nicholson Group PLC

Our Team

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.

01 Andrew Dewhirst
Finance Director

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

02 James Forman
Financial Controller

James has worked with the Group since its launch in 2005 and has 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 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.

04 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.

01 02 03 04

05 Lucy Stearman
Assistant Accountant

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

06 Jay Cable
Head of Asset Management

A Chartered Surveyor with over 19 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.

07 Melissa Ricardo
Office Manager

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

08 Tim Hamlin
Senior Asset Manager

Tim is a Chartered Surveyor with 12 years of real estate experience and is responsible for creating and implementing asset level business plans in line with the portfolio's strategic direction. He is a member of the Responsibility Committee.

09 Louisa McAleenan
Research Analyst

Louisa has over ten 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.

05 06 07 08 09

Leadership structure

The Board

Chairman: Nicholas Thompson

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: Roger Lewis

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: Maria Bentley

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 2 team members

Responsibilities:

- Reviews and recommends portfolio transactions
- Monitors portfolio costs
- Reviews compliance with lending covenants

Responsibility

Chair: Andrew Dewhirst

Comprises: 1 Executive Director and 2 team members

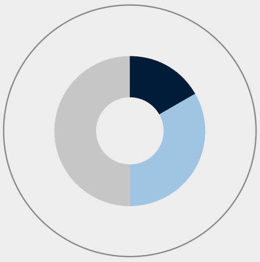
Responsibilities:

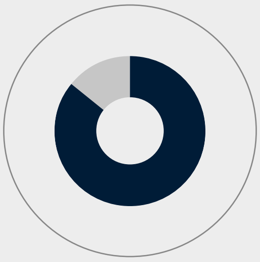
- Determines sustainability policy and strategy
- Monitors compliance with relevant standards and legislation
- Approves ESG reporting
- Employee wellbeing

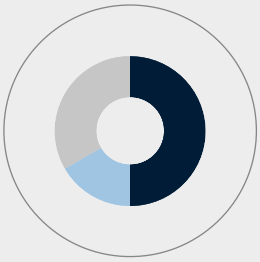
Division of responsibilities

Role	Responsibilities
Chairman Nicholas Thompson	– 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 – Build 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 Chairman – Available for communication with shareholders when other channels are not appropriate
Non-Executive Directors Roger Lewis Mark Batten Maria Bentley	– 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 – Determine the remuneration policy for the Group and approve 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 Board







Role

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

Diversity

	Number	%
Male	5	83%
Female	1	17%

Tenure

	Number	%
0 to 3 years	3	50%
3 to 6 years	1	17%
Over 9 years	2	33%

Corporate Governance Report continued

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 56 to 57.

Board changes

On 1 January 2020 Nicholas Wiles was appointed to the Board as a Non-Executive Director and resigned on 20 May 2020. Nicholas Thompson will remain on the Board as Chairman until a successor has been appointed.

Roger Lewis, having served on the Board since 2010, intends to step down from the Board this year, once a suitable successor has been appointed.

Composition

The Board currently comprises the Chairman, 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 2020 the Board comprised 50% independent Non-Executive Directors.

Board meetings

The Board has a regular schedule of meetings. The Board has 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.

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	8/9	–	7/7	4/4	5/5
Michael Morris	01.10.2015	8/9	–	–	–	–
Andrew Dewhirst	01.10.2018	9/9	–	–	–	–
Mark Batten	01.10.2017	9/9	4/4	6/7	4/4	5/5
Maria Bentley	01.10.2018	8/9	4/4	7/7	4/4	5/5
Roger Lewis	31.03.2010	9/9	4/4	7/7	4/4	4/5
Nicholas Wiles	01.01.2020	2/2	1/1	1/1	1/1	2/2
Total number of meetings		**9**	**4**	**7**	**4**	**5**

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 Chairman, 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. Each of the Non-Executive Directors are 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 rather than eliminate the failure to achieve business objectives 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.

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 Board and the Audit and Risk Committee. 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, if necessary, representatives of senior management would be 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 Chairman regularly attends analyst meetings and is available to meet investors if requested. The outcome of these 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 debated by the Board at the next scheduled meeting. The main conclusions of the evaluation were as follows:

- The Property Valuation Committee should continue in its present form
- The search for a new Non-Executive Director is a focus for the Nomination Committee
- Board meetings should continue to take place twice a quarter
- Asset visits would be arranged for the Board over the next year
- The Board should periodically review key assets in depth
- Sustainability objectives would be included in strategic priorities
- There would be a mid-year review by the Board of progress against strategic priorities

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. Last year we appointed Maria Bentley as the designated Non-Executive Director with responsibility for employee engagement. During the year we have carried out an 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.

Nomination Committee

The Nomination Committee is chaired by Maria Bentley

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

The members of the Nomination Committee are Nicholas Thompson, Roger Lewis, Mark Batten and Maria Bentley.

Maria Bentley was Chair of the Committee during the year until 31 January 2020, while the search for a new Chairman took place. Subsequently, Nicholas Thompson was reappointed as Chair of the Committee. As the search for a new Chairman has re-commenced, Maria Bentley has again taken over as Chair of the Committee, with effect from 20 May 2020.

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.

Activity

The Committee met five times during the year ended 31 March 2020 and considered the following matters:

- The selection process for the appointment of a new Director to replace Nicholas Thompson;
- The appointment of external consultants to compile a list of candidates;
- The formation of a working group of the Committee to manage the recruitment process and work with the consultants;
- Consideration of the final shortlist of candidates and a final recommendation;
- Future composition of the Board; and
- Succession planning.

Appointment of new Chairman

During the year the Committee focused on the selection and appointment of a successor to Nicholas Thompson, who stated his intention to retire from the Board in the previous Report. Independent executive search consultants Heidrick JCA Group were provided with a detailed description of the role and the capabilities required for it. The consultants prepared a list of potential candidates, which was assessed by the Committee for suitability to the role. The shortlist of 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 recommending to the Board that Nicholas Wiles be appointed.

Board composition and succession

At the date of this Report, the Board comprises the Chairman, two Executive Directors and three further independent Non-Executive Directors.

The Committee has commenced the search for a replacement for Roger Lewis, who has now served on the Board since 2010. Roger has brought extensive property experience to the Board, and has served as Chair of the Property Valuation Committee. The search is focused on identifying someone with suitable experience to take over this role.

As noted above, the Committee has also re-commenced the search for a new Chair of the Company, following Nick Wiles' recent departure.

Tenure and re-election

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy.

The provisions of the 2018 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 Nicholas Wiles was led by the Chairman and supported by the other Directors. The process commenced shortly after the appointment was confirmed, and comprised a number of one-to-one meetings with the other Non-Executive Directors, the Chief Executive and the Finance Director. Additionally, reading and reference material was provided that was specific to the Group and its business.

Maria Bentley
Chair of the Nomination Committee

22 June 2020

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mark Batten

Terms of reference

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

- Financial reporting, including significant accounting judgements and accounting policies;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its business model and strategy;
- Internal controls and risk management systems;
- Ensuring that key risks are identified and effectively measured, managed, mitigated and reported;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit arrangement;
- The programme of controls testing; and
- Reporting responsibilities.

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The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Roger Lewis and Maria Bentley. Meetings of the Audit and Risk Committee are attended by the Group's Finance Director, other members of the finance team and the external auditor, KPMG Channel Islands Limited. The external auditor is given the opportunity to discuss matters without management present.

Activity

The Audit and Risk Committee met four times during the year ended 31 March 2020 and considered the following matters:

- External audit strategy and plan;
- Audit tender process;
- 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 Risk Matrix and mitigating controls;
- Review of controls testing undertaken; 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 2020 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

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 Picton employees, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in June 2020 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 Chairman 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 noted that the independent valuer had included a 'material valuation uncertainty' statement in their report as at the valuation date due to the current unprecedented circumstances and that less certainty can be attached to the valuation as a result. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2020 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 adopted a Risk Management Policy for the Group.

The purpose of the Risk Management Policy is to ensure risks are accepted in accordance with the Group's risk appetite and further to ensure the effective management of all risks through proactive identification, measurement, management and reporting of risk pertaining to all activities undertaken by the Group. The Risk Management Policy is intended to:

— Ensure that major risks are reported to the Board for review and acceptance;

— 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 Group'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 for the reasons set out below, in order to provide the Board with independent assurance that the controls are operating as intended and that they 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 2019, 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 independent assurance regarding the internal control systems in place.

Audit tender

As stated in last year's Annual Report, during the year the Committee carried out a tender process for the external audit as KPMG Channel Islands Limited had been in place as the Group's auditor for ten years. A tender was not mandatory, but was considered best practice at this time. The Committee determined that any new appointment would be in respect of the audit for the year ended 31 March 2021, with a suitable handover period following completion of the audit for 31 March 2020.

The tender process was as follows:

- An initial list of five firms was invited to take place in the tender, including the incumbent firm and two non-Big Four firms. Of these, one firm declined to take part;
- A Request for Proposal was sent to the four participating firms. This contained key information about the Group, the timetable for the process and contact details;
- Each participating firm had meetings and/or calls with the Chair of the Committee and the Finance Director to answer any specific questions about the Group and the audit;
- The Committee considered the four proposals received and decided to invite all four participating firms to make a presentation to the Committee;
- The most recent FRC Audit Quality Review reports for each of the participating firms were reviewed by the Committee;
- Following the presentations the Committee Chair spoke to independent referees for two of the participating firms and fed back to the rest of the Committee;
- The Committee had a further meeting, at which it agreed to put forward to the Board two firms, with a recommendation that KPMG Channel Islands Limited be reappointed as external auditor.

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 that 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 personnel involved in any non-audit services provided to the Group are not involved in the Group's audit. 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:

	2020 £000	2019 £000
Audit fees	**159**	115
Interim review fees	**16**	15
Non-audit fees	**16**	27
	191	157

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, which sets 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 following a tender process in July 2009. The current audit engagement partner, Deborah Smith, has served three 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

22 June 2020

Remuneration Committee

The Remuneration Committee is chaired by Maria Bentley

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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The Remuneration Committee is chaired by Maria Bentley. The other members of the Committee are Nicholas Thompson, Mark Batten and Roger Lewis.

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 £34,800 (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 2020.

This report comprises three sections:

- This annual statement;
- Summary of the Directors' Remuneration Policy; and
- The Annual Report on Remuneration for the year ended 31 March 2020.

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

Our current Remuneration Policy was approved by shareholders in 2018, so this is the second year of application. The Committee is satisfied that the Policy has operated as intended so there are no changes to the Policy being proposed this year.

Covid-19 impact

This year's remuneration review takes place against the backdrop of the Covid-19 pandemic, which is causing unprecedented levels of uncertainty and volatility in the UK economy. Many businesses are facing financial hardship from a severe drop in earnings, giving rise to cost cutting measures and even closure in some cases. We are working with our occupiers through this difficult period to find workable solutions that help them but also maintain value for all our stakeholders. We have also taken the difficult decision to reduce our dividend and our share price is now at a substantial discount to the net asset value, although this is in common with many other property companies. It is in this context that the Committee has considered this year's salary review, bonus and LTIP awards. Picton has a small team and is unusual in having a high degree of alignment for all employees, not just the Executive Directors.

We have recognised previously, when our current Remuneration Policy was set, that the base salaries of our Executive Directors are low relative to the market, and that a greater emphasis would be placed on the performance related variable elements of remuneration. Although we have concluded that there will be no increase in base salary for the Executive Directors, we have decided that the formulaic outcome for both the annual bonus and LTIP awards are a fair reflection of the Group's performance for the respective performance periods and that no further adjustment is required. In particular we took into account the upper quartile relative performance achieved for the total return, total property return and total shareholder return metrics. For the forthcoming LTIP awards we recognise that the current share price discount to net asset value potentially could lead to an unusually high share award and windfall gains on vesting. As a result, we have scaled back the LTIP awards by 30% this year. Taken together, we believe this is an appropriately balanced set of decisions by the Committee.

As in prior years, a proportion of 2020/21 annual bonus and LTIP awards will be based on EPS targets. In these highly unusual circumstances we have decided to delay setting these targets until later in the year when the economic outlook will hopefully be more certain to enable us to set appropriate target ranges.

Group performance and alignment

We have set out on pages 24 to 27 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 2019/20 and 2020/21 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 2019/20

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 67% of the maximum award available under these financial measures.

The corporate and personal objectives were set to ensure that specific key strategic targets were reached. The main objective related to leading the business and making progress against its strategic priorities. Other corporate objectives set were targets for dividend cover and loan to value ratio. This year there were personal objectives set individually for the Executive Directors, relating to occupancy, IT, sustainability and borrowings. The Committee considered that the Executive Directors had made significant progress in many areas. More detail is provided later in this Remuneration Report, but overall the Committee considered that outcomes of 74% and 83% of the maximum award for the two Executive Directors was merited against the corporate and personal objectives.

In aggregate, annual bonus awards for the two Executive Directors are 70% and 73% of the maximum award (2018/19 – 79% 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 £23 million, giving a total return of 4.5%. Although this is lower than the previous year, it was achieved under difficult market conditions and when many other companies have reported significant losses. Compared to the peer group, our return was again upper quartile;
- EPRA earnings for the year were lower, but largely due to the active management projects taking place at a number of properties;
- The loan to value ratio has fallen following the repayment of borrowings.

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 2020)

The awards made under the Long-term Incentive Plan (LTIP) in June 2017 were based on three performance conditions measured over the three-year period ending on 31 March 2020. 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 Report on Remuneration, and give rise to an overall award of 67% of the maximum granted. The Committee agreed that the formulaic outcome was a fair reflection of overall Group performance over the performance period.

Salary review for 2020/21

In considering the salary review for 2020/21, 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. As a result and in order to maintain a competitive package the Committee determined that there would be an overall average rise for the workforce as a whole of 2.6% in base salaries with effect from 1 April 2020. However, the Committee agreed that there would be no salary increases this year for the Executive Directors.

Corporate Governance Code 2018

This year we are reporting against the provisions of the 2018 Code for the first time.

We have reviewed 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. However, in light of evolving market practice, we will consider the introduction of a more formal post-employment shareholding guideline when the Remuneration Policy is reviewed next year.

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 remain unchanged for the year to 31 March 2021 although this year we have reduced the LTIP awards for the Executive Directors by 30% to reflect the lower share price and discount to net asset value, and to avoid any windfall gains arising on vesting.

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 Executive Directors are expected to build up a shareholding of 200% of base salary under our shareholding guidelines.

We have set short-term objectives for the business while we navigate through the current Covid-19 pandemic. We will review and update these as appropriate at the mid-year stage to form the corporate targets for the Executive Directors. At this stage we will also confirm the personal targets for the Executive Directors and the LTIP performance targets.

We intend to maintain our current pension arrangements for the Executive Directors, as these are consistent with those of the rest of the workforce.

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

22 June 2020

Remuneration at a glance

Total remuneration for 2019/20

Fixed Pay

Base salary

Pension contributions

Benefits

Read more on pages 77–83

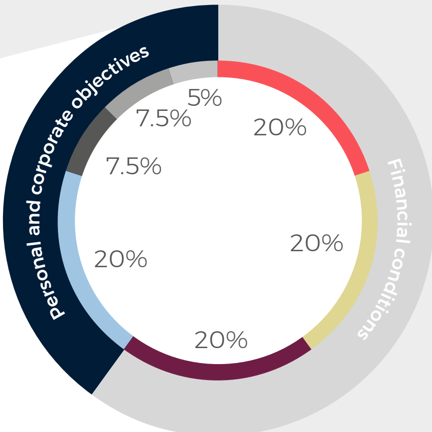
+

Variable pay

Annual bonus

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

The annual bonus for 2019/20 is determined by:



Personal and corporate objectives

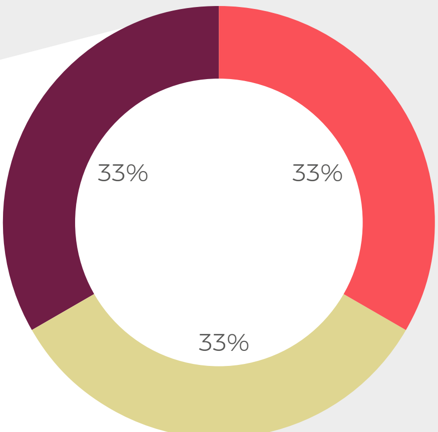
- Progress against strategic priorities
- Corporate objectives
- Personal objectives
- Enhance stakeholder reputation

Financial conditions

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

Long-term incentive plan (LTIP)

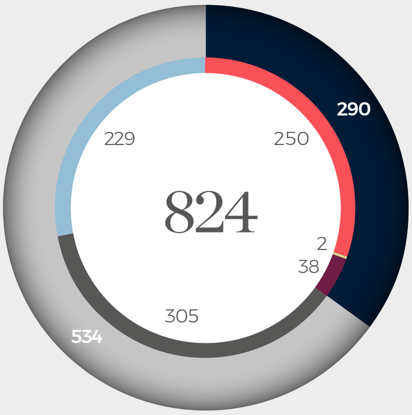
The LTIP is based on three financial metrics, each measured over three years:



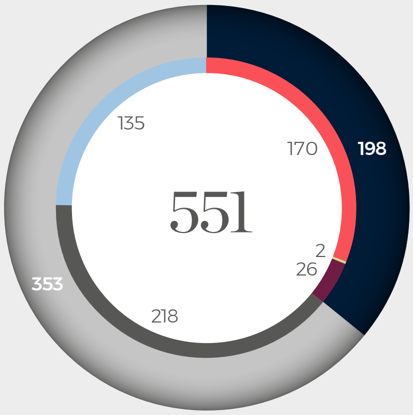
- Total shareholder return
- Total property return
- Growth in EPRA earnings per share

The single figure of remuneration for the Directors for the year 2019/20 (in £ thousands) is:

Chief Executive



Finance Director



Non-Executive Directors

Key:

Salary · Benefits · Pension · Annual bonus · Long-term incentive plan · **Total fixed** · **Total variable**

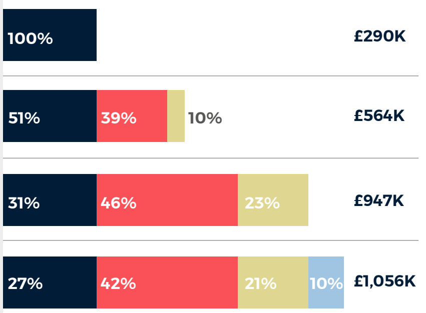
The potential remuneration of the Executive Directors for the year to 31 March 2021 is:

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

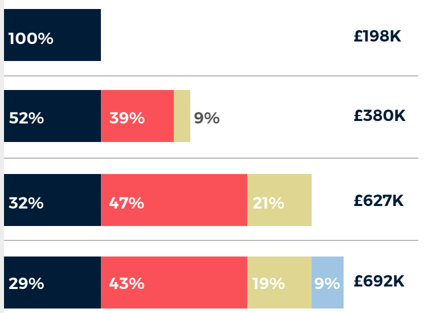
- **Fixed pay –** this comprises base salary from 1 April 2020, benefits and pension salary supplement of 15% of base salary
- **On target –** this is fixed pay plus target vesting for the annual bonus (at 50% of maximum opportunity for illustrative purposes) and threshold vesting for the LTIP (at 25% of maximum award)
- **Maximum –** fixed pay plus maximum vesting for both the annual bonus (175% of base salary) and the LTIP (87.5% (Chief Executive) and 77% (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



Key:

Total fixed · Annual bonus · LTIP · Share growth

Remuneration in context

Percentage change in remuneration of the Chief Executive

The table below shows the percentage change in the Chief Executive's total remuneration between the years ended 31 March 2019 and 31 March 2020 compared to the average remuneration of all other employees of the Group.

	Change from previous year		
	Base salary	Benefits	Annual bonus
Chief Executive	4.2%	4.4%	-8.7%
Average of all employees	7.2%	6.9%	6.9%

Relative importance of spend on pay

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

	31 March 2020 £000	31 March 2019 £000	% change
Employee costs	**3,273**	3,672	-11%
Dividends	**19,039**	18,860	1%
EPRA earnings	**19,912**	22,912	-13%

Summary of Directors' Remuneration Policy

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 attract and 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.

A summary of the Remuneration Policy approved by shareholders at the 2018 Annual General Meeting is set out below. The full Policy is contained in our 2018 Annual Report which is available on our website at www.picton.co.uk.

Executive Directors' Remuneration Policy

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	To provide a 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	The salary supplement is set at 15% of base salary.
Performance measures	None
Clawback	None

Benefits

Purpose	To provide 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 may be awarded and paid at the end of the deferral period in cash.
Maximum	The maximum bonus will be 175% of base salary.
Performance measures	The annual bonus is based on a range of one-year financial, strategic and individual targets set by the Committee at the beginning of each year. 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 apply.

Long-term incentive plan

Purpose	A long-term incentive plan to align executives' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually 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 on awards that vest. The Committee may 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	There will initially 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 threshold levels of performance 25% of the award vests, rising to 100% for maximum performance.
Clawback	Malus and clawback provisions apply.

Shareholding guidelines

Purpose	To align Executive Directors with the interests of shareholders.
Operation	Executive Directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of base salary.
Maximum	Not applicable
Performance measures	Not applicable
Clawback	Not applicable

Non-Executive Directors' Remuneration Policy

Fees

Purpose	To provide competitive Director fees.
Operation	Annual fee for the Chairman, and annual base fees for other independent Non-Executive Directors. Additional fees for those Directors with additional responsibilities chairing a Board Committee. All fees will be payable quarterly 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 the outcomes are not a fair and accurate reflection of business performance. In the event that the Committee were 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 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.

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 currently 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.

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 2020, with a comparison to the previous financial year:

		Salary/fees £000	Benefits £000	Pension salary supplement £000	Annual bonus £000	Deferred bonus £000	Long-term incentive plan £000	**Total £000**
Executive								
Michael Morris	2020	250	2	38	153	152	229	**824**
	2019	240	2	36	167	167	308	**920**
Andrew Dewhirst	2020	170	2	26	109	109	135	**551**
	2019	80	1	12	56	56	181	**386**
Non-Executive								
Nicholas Thompson	2020	98	–	–	–	–	–	**98**
	2019	98	–	–	–	–	–	**98**
Roger Lewis	2020	45	–	–	–	–	–	**45**
	2019	45	–	–	–	–	–	**45**
Mark Batten	2020	48	–	–	–	–	–	**48**
	2019	46	–	–	–	–	–	**46**
Maria Bentley	2020	49	–	–	–	–	–	**49**
	2019	23	–	–	–	–	–	**23**
Nicholas Wiles	2020	10	–	–	–	–	–	**10**
	2019	–	–	–	–	–	–	**–**
Robert Sinclair	2020	–	–	–	–	–	–	**–**
	2019	24	–	–	–	–	–	**24**
Vic Holmes	2020	–	–	–	–	–	–	**–**
	2019	23	–	–	–	–	–	**23**

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 above figures for 2019 for the Executive Directors for annual bonus and LTIP awards have been re-stated. The estimated figures for annual bonus included in last year's report were £313,500 (Michael Morris) and £104,500 (Andrew Dewhirst). The estimates included an outcome of 50% for the relative total return metric. The final outcome was determined to be 77%, and the awards were adjusted to £333,500 (Michael Morris) and £111,200 (Andrew Dewhirst). The above LTIP awards for 2019 for the Executive Directors have been re-stated to reflect the share price at vesting (95.0p) rather than the average for the quarter (87.56p) and to include dividend equivalents of £25,700 (Michael Morris) and £15,100 (Andrew Dewhirst).

Andrew Dewhirst and Maria Bentley joined the Board on 1 October 2018.

Robert Sinclair and Vic Holmes retired from the Board on 30 September 2018.

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

The value of LTIP awards are based on the number of shares to be awarded to the Executive Directors and the average share price over the quarter ended 31 March 2020 of 92.64 pence, and the estimated value of dividend equivalents.

Maria Bentley received additional fees at the rate of £5,000 per annum while serving as Chair of the Nomination Committee.

Annual bonus for 2019/20

The annual bonus for the year ended 31 March 2020 for the Executive Directors was based on a combination of financial metrics (60%) and corporate and personal objectives (40%).

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.

Remuneration Report continued

The targets set for the year ended 31 March 2020 and the assessment of actual performance achieved are set out in the table below.

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%	Median -2.3% Upper quartile 2.4%	4.5%	100%	35%
Total property return versus MSCI Index **Bonus weighting: 20%**	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Median 0.6% Upper quartile 2.9%	5.3%	100%	35%
Growth in EPRA EPS **Bonus weighting: 20%**	Less than 1% – 0% Equal to 1% – 25% Equal or greater than 9% – 100%	1% – 4.29p 9% – 4.63p	3.66p	0%	0%

The corporate and personal objectives for the Executive Directors for the year to 31 March 2020 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)
Dividend cover for the year to be in excess of 110% **Bonus weighting: 3.75%**	Dividend cover is 105% for the year, so this target has not been met.	0%	0%
The Group's overall loan to value ratio to be below 25% at the end of the financial year **Bonus weighting: 3.75%**	The LTV at 31 March 2020 is 21.7%, so this target has been met.	100%	6.6%
Lead the business and make progress against the strategic pillars: — Property Performance — Operational Excellence — Acting Responsibly **Bonus weighting: 20%**	The Committee assessed the progress made against each of the strategic pillars. They noted particularly the following factors: — Significant capital expenditure programme across multiple assets; — Two disposals in Croydon and Lutterworth made capturing significant upside against March 2019 valuation; — During the year both revolving credit facilities have been fully repaid ahead of re-financing. The new facility will provide financial flexibility for five years mitigating cash drag and with no repayment fees; — Team repositioned and appointment of Head of Occupier Services, with lower cost base; — Efficiency has been improved through the introduction of new asset management and operational software; — Working with occupiers to undertake letting and regear transactions in Bristol, Rushden, Grantham and Radlett; — Continued use of LTIP and deferred bonus; share awards hedged through purchases at discount to net asset value during the year;	90%	31.5%
Enhance reputation with stakeholders **Bonus weighting: 5%**	— Consistently positive investor feedback from Kepler, JPMorgan and Stifel — Enhanced activity with Edison — Increased digital led engagement with investors and occupiers	90%	7.9%
			45.9%

The personal objectives for the individual Directors and the assessment of performance are as follows:

Performance condition	Assessment	Awarded (% of maximum)	Awarded (% of salary)
Michael Morris			
The EPRA vacancy rate to be at or less than 7% at the end of the financial year **Bonus weighting: 3.75%**	Vacancy rate at 31 March 2020 was 11%, so this target was not met.	0%	0%
Further develop Picton Promise Initiative – Focus on Action, Community, Technology, Sustainability and Support **Bonus weighting: 3.75%**	Content and branding finalised, occupier packs issued and with messaging displayed in vacant accommodation and reception areas.	90%	5.9%
			5.9%
Andrew Dewhirst			
Manage IT transition effectively **Bonus weighting: 3.75%**	The IT transition comprised initially an upgrade to the main accounting system, followed by migration to a new hosting platform. This was completed successfully within the agreed timescale.	100%	6.6%
Combine and extend the existing revolving credit facilities to a maturity date in 2024 **Bonus weighting: 3.75%**	A new £50 million revolving credit facility has been completed subsequent to the year end. The new facility is for an initial three-year term with two one-year extensions available.	90%	5.9%
			12.5%

As discussed in the Committee Chair's statement on pages 69 to 71, 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 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.

The overall annual bonus outcome for the Executive Directors is, therefore, as follows.

	Financial metrics (out of maximum 60%)	Corporate objectives (out of maximum 32.5%)	Personal objectives (out of maximum 7.5%)	Overall bonus % of maximum	Bonus % of salary	Total bonus £
Michael Morris	40.0	26.3	3.4	69.6	121.8	304,600
Andrew Dewhirst	40.0	26.3	7.1	73.4	128.4	218,300

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 when the awards vest.

Long-term Incentive Plan

The LTIP awards granted on 16 June 2017 were subject to performance conditions for the three years ended 31 March 2020. 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 -5.4% Upper quartile 5.8%	7.3%	33.3%	100%
Total property return versus MSCI Index	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median 5.5% Upper quartile 7.1%	8.5%	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% – 4.16p 9% – 4.93p	3.66p	33.3%	0%

The Committee was satisfied that the above performance was achieved within an acceptable risk profile. The Committee 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 92.64 pence for the quarter ended 31 March 2020, are:

Director	Maximum number of shares at grant	Number of shares vesting	Number of lapsed shares	Estimated value[1,2] £
Michael Morris	334,150	222,767	111,383	229,092
Andrew Dewhirst	196,898	131,265	65,633	134,993

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 £22,722 (Michael Morris) and £13.389 (Andrew Dewhirst).
2. £17,204 (Michael Morris) and £10,138 (Andrew Dewhirst) of this value relates to share price growth since the date of grant.

The following awards in the Long-term Incentive Plan were granted to the Executive Directors on 19 June 2019:

	Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
Michael Morris	328,153	125%	0.9523	312,500	1 April 2019 to 31 March 2022	25%
Andrew Dewhirst	214,218	120%	0.9523	204,000	1 April 2019 to 31 March 2022	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 the same performance conditions as applied to the June 2017 LTIP award set out above. Vested awards will be subject to a two-year holding period. 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 2019	Granted in year	Exercised in year	Lapsed in year	**As at 31 March 2020**
Michael Morris								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	358,791	–	–	(61,976)	**296,815**
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	334,150	–	–	–	**334,150**
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**
2019 DBP	19 June 2019	1 April 2018 to 31 March 2019	95.23p	–	175,137	–	–	**175,137**
				1,023,337	**503,290**	**–**	**(61,976)**	**1,464,651**

	Date of grant	Performance period	Market value on date of grant	At 1 April 2019	Granted in year	Exercised in year	Lapsed in year	**As at 31 March 2020**
Andrew Dewhirst								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	211,418	–	–	(36,519)	**174,899**
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	196,898	–	–	–	**196,898**
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**
2019 DBP [1]	19 June 2019	1 April 2018 to 31 March 2019	95.23p	–	116,758	–	–	**116,758**
				602,149	**330,976**	**–**	**(36,519)**	**896,606**

1. The number of shares awarded to Andrew Dewhirst in 2019 under the Deferred Bonus Plan is the total awarded. This differs from the Single Figure Remuneration table where 50% of this award is included, as he was a Director from 1 October 2018 only.

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 are used as a comparator group for the total shareholder return and total return metrics in determining variable remuneration. A smaller group is used for the total return metric due to the different reporting periods of some companies. The criteria for inclusion in the groups are:

- Listed companies paying an above average dividend yield, principally directly investing in the UK in one or more of the main commercial property sectors and with a market capitalisation of less than £2 billion.

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	✓	✓
LondonMetric Property PLC	✓	✓
McKay Securities PLC	✓	✓
NewRiver REIT PLC	✓	✓
RDI 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	✓	✓

Both Hansteen Holdings plc and Mucklow (A.&J.) PLC have been removed from the comparator group following corporate events in the year and will not be included in the performance metrics of any current or future awards.

Supermarket Income REIT and Warehouse REIT were added to the group for awards made from 2019 onwards.

Tritax Big Box REIT was 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 2020, were as follows:

	Beneficial holding 2020	Beneficial holding 2019	Holding as a % of salary	Outstanding LTIP awards[1]	Outstanding DBP awards
Michael Morris	53,596	53,596	19%	1,289,514	175,137
Andrew Dewhirst	28,500	28,500	15%	779,848	116,758
Nicholas Thompson	215,000	215,000			
Roger Lewis	600,000	600,000			
Mark Batten	–	–			
Maria Bentley	74,436	–			
Nicholas Wiles	–	–			

1. The outstanding number of LTIP shares includes 296,815 shares (Michael Morris) and 174,899 shares (Andrew Dewhirst) that have vested but not yet been exercised.

The percentage holding for the Executive Directors is based on base salaries as at 31 March 2020 and a share price of £0.89. The beneficial holdings of shares include any held by connected persons.

Executive Directors are now 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 2020.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 31 March 2010 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 two 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 two years.

	Total remuneration (£000)	Annual bonus (% of maximum)	LTIP vesting (% of maximum award)
2020	824	70%	67%
2019	920	79%	83%

Implementation of Remuneration Policy in 2020/21

		Change from prior year
Executive Directors		
Base salaries	Michael Morris (Chief Executive) – £250,000 Andrew Dewhirst (Finance Director) – £170,000	There are no salary increases for the Chief Executive and Finance Director this year. The average increase for the rest of the workforce is 4.6%.
Pension and benefits	15% salary supplement in lieu of pension plus standard other benefits.	No change. All employees may receive 15% salary pension provision.
Annual bonus[1]	Maximum bonus of 175% 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 return, relative total property return and growth in EPRA earnings per share, with the remaining 40% determined by strategic and personal measures.	No change
LTIP[1]	Award of shares worth: – Michael Morris (Chief Executive) 87.5% of salary – Andrew Dewhirst (Finance Director) 77% 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 set out on page 78. Targets for the EPS measure will be set and disclosed later in the year.	Awards to the Executive Directors have been reduced by 30% this year to avoid the potential for windfall gains on vesting.
Non-Executive Directors		
Fees	Chairman – £98,000 Director – £40,000 Supplementary fee for Chair of the Property Valuation or Remuneration Committee – £5,000 Supplementary fee for Chair of the Audit and Risk Committee – £7,500	No change

1. 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 14 November 2019, representing 51% 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	270,048,780	96.88	148,636,904	94.98
Against	8,700,568	3.12	7,853,028	5.02
Votes cast	**278,749,348**	**100.0**	**156,489,932**	**100.0**
Withheld	337,816		10,100,551	

Maria Bentley
Chair of the Remuneration Committee

22 June 2020

Property Valuation Committee

The Property Valuation Committee is chaired by Roger Lewis

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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The Property Valuation Committee is chaired by Roger Lewis. The other members of the Committee are Nicholas Thompson, Mark Batten and Maria Bentley.

Activity

The Property Valuation Committee met four times during the year ended 31 March 2020 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.

Material uncertainty

The Committee noted that the external valuer had included a 'material valuation uncertainty' statement in their report as at 31 March 2020. This was the result of the impact of the Covid-19 pandemic on market activity as the valuers had an unprecedented set of circumstances on which to base their judgement. In line with market practice therefore, the valuers have stated that less certainty can be attached to the valuations than would otherwise have been the case.

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.

Roger Lewis
Chair of the Property Valuation Committee

22 June 2020

Directors' Report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2020.

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 of 0.875 pence per share, making a total dividend for the year ended 31 March 2020 of 3.5 pence per share (2019: 3.5 pence). All four interim dividends were paid as PIDs.

Directors

The Directors of the Company who served throughout the year are set out on pages 56 to 57, together with Nicholas Wiles, who was appointed on 1 January 2020 and resigned on 20 May 2020.

The Directors' interests in the shares of the Company as at 31 March 2020 are set out in the Remuneration Report.

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

Code Compliance Statement

The Board confirms that for the year ended 31 March 2020 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 have served for more than nine years on the Board, the Company has not complied with those provisions within the Code relating to tenure. Both Directors intend to step down from the Board once suitable replacements have been appointed. More information is provided in the Nomination Committee Report.

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 2020 was 547,605,596 (2019: 540,053,660) ordinary shares of no par value, including 2,103,683 ordinary shares which are held by the Trustee of the Company's Employee Benefit Trust (2019: 1,542,000 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 2019 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 10 October 2019) without having to first offer those shares to existing shareholders. On 21 June 2019 the Company issued 7,551,936 new ordinary shares at 94.5 pence per share under the authority granted to the Directors at the 2018 Annual General Meeting. No ordinary shares have been issued subsequently 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 2,103,683 ordinary shares in the Company to satisfy awards made under the Long-term Incentive Plan. During the year the Trustee acquired 954,000 ordinary shares at 88.26 pence per share. The Trustee has waived its right to receive dividends on the shares it holds.

Statement of going concern

Given the impact of the current Covid-19 pandemic on the UK economy, 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 2020. In making their assessment, the Directors have considered the principal risks relating the Group, its loan covenants, access to funding and liquidity position. They have also considered a number of scenarios, in particular as regards 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 severely 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 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 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 current Covid-19 pandemic and a disruptive Brexit and their 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 both the current Covid-19 pandemic and a disruptive Brexit, the Board considered a number of scenarios around their 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 severely curtailed during the initial period of the assessment. Significant falls in capital values were included in these scenarios, including the 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 2025 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 2025.

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 27 May 2020.

	% of issued share capital
Investec Wealth & Investment Limited	14.0
Brewin Dolphin Limited	6.6
Mattioli Woods Plc	5.9
BlackRock Inc.	5.0
Thames River Capital LLP	4.6
Interactive Investor Services Limited	4.3
Smith & Williamson Investment Management	4.2
Canaccord Genuity Wealth Management	3.7
The Vanguard Group Inc.	3.4

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 have elected 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's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping 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 Company 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 Group; and

— the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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 Group's position and performance, business model and strategy.

By Order of the Board

Andrew Dewhirst
Director

22 June 2020

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 2020, 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 2020, 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 judgement, 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 2019):

Valuation of investment properties
£654.5 million; (2019 £676.1 million)
Refer to page 67 of the Audit and Risk Committee Report, Note 2 significant accounting policy and Note 13 investment properties disclosures

The risk	**Our response**
Basis: The Group's investment properties accounted for 94% (2019: 94%) of the Group's total assets as at 31 March 2020. The fair value of investment properties at 31 March 2020 was assessed by the Board of Directors based on independent valuations prepared by the Group's external property valuer (the "Valuer"). **Risk:** As highlighted in the Audit and Risk Committee Report, 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 requires the use of significant judgements and subjective assumptions. The outbreak of Covid-19 has impacted market activity in many sectors. As at the valuation date, the Valuer's consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Accordingly, the valuations across the investment property portfolio have been reported on the basis of "material valuation uncertainty". The Valuers have clarified that the "material valuation uncertainty" does not mean that the valuation cannot be relied upon rather, less certainty can be attached to the valuation than would otherwise be the case.	Our audit procedures included: **Control evaluation:** We assessed the design, implementation and operating effectiveness of certain controls over the valuation of investment properties including the review and approval by the Board of Directors of the valuations and 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 £6.96 million, determined with reference to a benchmark of Group total assets of £695.6 million, of which it represents approximately 1.0% (2019: 1%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £348,000, 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.

We have nothing to report on 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 to cease their operations, and as they have concluded that Group'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 its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's activities including where relevant the impact of the Covid-19 pandemic and the requirements of the applicable financial reporting framework. We analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Director's plans for future actions in relation to their going concern assessment.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 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 Group's use of that basis for a period of at least twelve months from the date of approval of the consolidated financial statements. We have nothing to report in these respects.

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

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the viability assessment and statement (page 86) 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 Principal Risks disclosures describing these risks and explaining how they are being managed or mitigated;

— the Directors' explanation in the viability assessment and statement (page 86) 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.

Independent Auditor's Report to the Members of Picton Property Income Limited continued

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and 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 Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

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 87, 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'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 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

22 June 2020

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	Notes	2020 Total £000	2019 Total £000
Income			
Revenue from properties	3	**45,664**	47,733
Property expenses	4	**(12,027)**	(9,433)
Net property income		**33,637**	38,300
Expenses			
Administrative expenses	6	**(5,563)**	(5,842)
Total operating expenses		**(5,563)**	(5,842)
Operating profit before movement on investments		**28,074**	32,458
Investments			
Profit on disposal of investment properties	13	**3,478**	379
Investment property valuation movements	13	**(882)**	10,909
Total profit on investments		**2,596**	11,288
Operating profit		**30,670**	43,746
Financing			
Interest received		**9**	38
Interest paid	8	**(8,295)**	(9,126)
Debt prepayment fees		**–**	(3,245)
Total finance costs		**(8,286)**	(12,333)
Profit before tax		**22,384**	31,413
Tax	9	**124**	(458)
Profit and total comprehensive income for the period		**22,508**	30,955
Earnings per share			
Basic	11	**4.1p**	5.7p
Diluted	11	**4.1p**	5.7p

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 26 form part of these consolidated financial statements.

Financial Statements

Consolidated statement of changes in equity

for the year ended 31 March 2020

	Notes	Share capital £000	Retained earnings £000	Other reserves £000	Total £000
Balance as at 31 March 2018		**157,449**	**330,157**	**(251)**	**487,355**
Profit for the year		–	30,955	–	30,955
Dividends paid	10	–	(18,860)	–	(18,860)
Share-based awards	7	–	–	363	363
Purchase of shares held in trust	7	–	–	(398)	(398)
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	19	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**

Notes 1 to 26 form part of these consolidated financial statements.

Consolidated balance sheet

as at 31 March 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Investment properties	13	**654,486**	676,102
Tangible assets		**20**	25
Total non-current assets		**654,506**	676,127
Current assets			
Accounts receivable	14	**17,601**	14,309
Cash and cash equivalents	15	**23,567**	25,168
Total current assets		**41,168**	39,477
Total assets		**695,674**	715,604
Current liabilities			
Accounts payable and accruals	16	**(19,438)**	(22,400)
Loans and borrowings	17	**(888)**	(833)
Obligations under leases	21	**(108)**	(109)
Total current liabilities		**(20,434)**	(23,342)
Non-current liabilities			
Loans and borrowings	17	**(164,248)**	(191,136)
Obligations under leases	21	**(1,709)**	(1,711)
Total non-current liabilities		**(165,957)**	(192,847)
Total liabilities		**(186,391)**	(216,189)
Net assets		**509,283**	499,415
Equity			
Share capital	19	**164,400**	157,449
Retained earnings		**345,667**	342,252
Other reserves		**(784)**	(286)
Total equity		**509,283**	499,415
Net asset value per share	22	**93p**	93p

These consolidated financial statements were approved by the Board of Directors on 22 June 2020 and signed on its behalf by:

Andrew Dewhirst
Director

22 June 2020

Notes 1 to 26 form part of these consolidated financial statements.

Financial Statements

Consolidated statement of cash flows

for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Operating activities			
Operating profit		**30,670**	43,746
Adjustments for non-cash items	20	**(2,295)**	(10,918)
Interest received		**9**	38
Interest paid		**(7,952)**	(8,668)
Tax received/(paid)		**123**	(845)
(Increase)/decrease in accounts receivable		**(4,078)**	396
(Decrease)/increase in accounts payable and accruals		**(2,936)**	1,532
Cash inflows from operating activities		**13,541**	25,281
Investing activities			
Capital expenditure on investment properties	13	**(8,861)**	(1,559)
Disposal of investment properties		**33,859**	11,837
Purchase of tangible assets		**(4)**	(27)
Cash inflows from investing activities		**24,994**	10,251
Financing activities			
Borrowings repaid	17	**(33,204)**	(34,871)
Borrowings drawn	17	**6,000**	15,500
Debt prepayment fees		**–**	(3,245)
Issue of ordinary shares	19	**7,137**	–
Issue costs of ordinary shares		**(186)**	–
Purchase of shares held in trust	7	**(844)**	(398)
Dividends paid	10	**(19,039)**	(18,860)
Cash outflows from financing activities		**(40,136)**	(41,874)
Net decrease in cash and cash equivalents		**(1,601)**	(6,342)
Cash and cash equivalents at beginning of year		**25,168**	31,510
Cash and cash equivalents at end of year	15	**23,567**	25,168

Notes 1 to 26 form part of these consolidated financial statements.

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 investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2020 with comparatives for the year ended 31 March 2019.

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.

Given the impact of the current Covid-19 pandemic on the UK economy, the Directors have focused on assessing whether the going concern basis remains appropriate for the preparation of the financial statements. They have reviewed the Group's principal risks, its loan facilities, access to funding and liquidity position and then considered a number of scenarios including different levels of rent collection over varying timescales, 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.

— IFRS 16 Leases

The adoption of this standard 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 2020 and thus have not been applied by the Group.

— Amendments to IFRS 3 (Business Combinations) is effective for financial years commencing on or after 1 January 2020. The amendment relates to changes in the criteria for determining whether an acquisition is a business combination or an asset acquisition. These amendments will be applied to any future business combinations.

— Amendments to IFRS 9 (Financial Instruments) is effective for financial years commencing on or after 1 January 2020. The amendments offer relief in meeting the criteria for hedge accounting on the transition from LIBOR to IBOR. The adoption of these amendments is not considered to have a material impact on the financial statements of the Group.

— Amendments to References to the Conceptual Framework are effect for financial years commencing on or after 1 January 2020. The adoption of these amendments is not considered to have a material impact on the financial statements of the Group.

— Amendments to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) are also effective for financial years commencing on or after 1 January 2020. The amendment will be applied to any future changes in Accounting Policy, Accounting Estimates or Errors.

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 estimates

The critical estimates and assumptions relate to the investment property valuations applied by the Group's independent valuer and this is described in more detail in Note 13. 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.

2. Significant accounting policies continued

Significant judgements

Critical judgements, where made, are disclosed within the relevant section of the financial statements in which such judgements have been applied. Key judgements relate to the treatment of business combinations, lease classifications, or employee benefits where different accounting policies could be applied. These are described in more detail in the accounting policy notes below, or in the relevant notes to the financial statements.

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 17.

Leases

Head leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Consolidated Statement of Comprehensive Income.

Lease income is recognised in 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 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.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the lease end. 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 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.

2. Significant accounting policies continued

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, trade and other debtors and creditors, and deferred rental income, which are not interest bearing are stated at their nominal value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

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 relating 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

	2020 £000	2019 £000
Rents receivable (adjusted for lease incentives)	**37,780**	40,942
Surrender premiums	**603**	682
Dilapidation receipts	**471**	269
Other income	**81**	122
Service charge income	**6,729**	5,718
	45,664	47,733

Rents receivable includes lease incentives recognised of £1.3 million (2019: £0.8 million).

4. Property expenses

	2020 £000	2019 £000
Property operating costs	**2,293**	2,342
Property void costs	**3,005**	1,373
Recoverable service charge costs	**6,729**	5,718
	12,027	9,433

5. Operating segments

The Board is responsible for setting the Group's business model and strategy. The key measure of performance used by the Board to assess the Group's performance is the total return on 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 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 47 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2020 £000	2019 £000
Director and staff costs	**3,273**	3,672
Auditor's remuneration	**191**	157
Other administrative expenses	**2,099**	2,013
	5,563	5,842

One-off REIT conversion costs of £215,000 were incurred during the year ended 31 March 2019, which are included within other administrative expenses.

Auditor's remuneration comprises:	**2020 £000**	2019 £000
Audit fees:		
Audit of Group financial statements	**92**	72
Audit of subsidiaries' financial statements	**67**	43
Audit-related fees:		
Review of half-year financial statements	**16**	15
	175	130
Non-audit fees:		
Additional controls testing	**16**	15
Liquidators' fees	**–**	7
Tax compliance	**–**	5
	16	27
	191	157

7. Director and staff costs

	2020 £000	2019 £000
Wages and salaries	**1,688**	1,654
Non-Executive Directors' fees	**250**	257
Social security costs	**394**	623
Other pension costs	**45**	48
Share-based payments – cash settled	**473**	727
Share-based payments – equity settled	**423**	363
	3,273	3,672

The emoluments of the Directors are set out in detail within the Remuneration Committee report.

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 are 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 19 June 2019 awards of 441,322 units were made which vest in June 2021 (2019: 572,389 units). The next awards are due to be made in June 2020 for vesting in June 2022.

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. The units which vested at 31 March 2020, and were not deferred, were paid out subsequent to the year end at a cost of £210,000 (2019: £925,000).

Vesting date	Units at 31 March 2018	Units granted in the year	Units cancelled in the year	Units redeemed in the year	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**
31 March 2016	65,198	–	–	(65,198)	–	–	–	–	**–**
31 March 2017	127,916	–	–	(127,916)	–	–	–	–	**–**
31 March 2018	127,234	–	–	(127,234)	–	–	–	–	**–**
31 March 2019	950,890	–	(14,331)	(936,559)	–	–	–	–	**–**
31 March 2020	–	572,389	(7,785)	–	564,604	–	(2,616)	(319,479)	**242,509**
31 March 2021	–	–	–	–	–	441,322	(2,415)	–	**438,907**
	1,271,238	572,389	(22,116)	(1,256,907)	564,604	441,322	(5,031)	(319,479)	**681,416**

Notes to the consolidated financial statements continued

for the year ended 31 March 2020

7. Director and staff costs continued

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 19 June 2019 awards for a maximum of 878,164 shares were granted to employees in respect of the three-year period ending on 31 March 2022. In the previous year, awards of 1,006,938 shares were made on 8 June 2018 for the period ending 31 March 2021.

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 option 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	19 June 2019	8 June 2018
Share price at date of grant	95.0p	90.9p
Exercise price	Nil	Nil
Expected term	3 years	3 years
Risk-free rate – TSR condition	0.84%	0.83%
Share price volatility – TSR condition	18.7%	18.4%
Median volatility of comparator group – TSR condition	18.1%	18.1%
Correlation – TSR condition	27.1%	33.2%
TSR performance at grant date – TSR condition	7.5%	7.6%
Median TSR performance of comparator group at grant date – TSR condition	3.0%	3.1%
Fair value – TSR condition (Monte Carlo method)	51.5p	42.9p
Fair value – TPR condition (Black-Scholes model)	95.0p	90.9p
Fair value – EPS condition (Black-Scholes model)	95.0p	90.9p

The Trustee of the Company's Employee Benefit Trust acquired 954,000 ordinary shares during the year for £844,000 (2019: 472,000 shares for £398,000).

The Group employed nine members of staff at 31 March 2020 (2019: ten). The average number of people employed by the Group for the year ended 31 March 2020 was ten (2019: 11).

8. Interest paid

	2020 £000	2019 £000
Interest payable on loans at amortised cost	**7,562**	8,117
Interest on obligations under finance leases	**114**	114
Non-utilisation fees	**248**	220
Amortisation of finance costs	**371**	675
	8,295	9,126

The loan arrangement costs incurred to 31 March 2020 are £4,534,000 (2019: £4,534,000). These are amortised over the duration of the loans with £371,000 amortised in the year ended 31 March 2020 (2019: £675,000).

9. Tax

The charge for the year is:

	2020 £000	2019 £000
Current UK income tax	**–**	324
Income tax adjustment to provision for prior year	**(68)**	25
	(68)	349
Current UK corporation tax	**–**	121
UK corporation tax adjustment to provision for prior year	**(56)**	(12)
	(56)	109
Total tax (credit)/charge	**(124)**	458

A reconciliation of the tax charge applicable to the results at the statutory tax rate to the charge for the year is as follows:

	2020 £000	2019 £000
Profit before taxation	**22,384**	31,413
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2019: 20%)	**4,253**	6,283
Less:		
UK REIT exemption on net income	**(3,760)**	(2,315)
Revaluation movement not taxable	**168**	(2,182)
Gains on disposal not taxable	**(661)**	(76)
Income not taxable, including interest receivable	**–**	(163)
Expenditure not allowed for tax purposes	**–**	985
Losses utilised	**–**	(2)
Capital allowances and other allowable deductions	**–**	(2,291)
Losses carried forward to future years	**–**	85
Total tax charge	**–**	324

For the year ended 31 March 2020 there was an income tax credit of £68,000 in respect of the Group (2019: £349,000 charge) and a corporation tax credit of £56,000 (2019: £109,000 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 timing 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

	2020 £000	2019 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2018: 0.875 pence	**–**	4,716
Interim dividend for the period ended 30 June 2018: 0.875 pence	**–**	4,716
Interim dividend for the period ended 30 September 2018: 0.875 pence	**–**	4,716
Interim dividend for the period ended 31 December 2018: 0.875 pence	**–**	4,712
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**	–
	19,039	18,860

The interim dividend of 0.625 pence per ordinary share in respect of the period ended 31 March 2020 has not been recognised as a liability as it was declared after the year end. This dividend of £3,409,000 was paid on 29 May 2020.

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:

	2020	2019
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**22,508**	30,955
Weighted average number of ordinary shares for basic profit per share	**544,192,866**	538,815,550
Weighted average number of ordinary shares for diluted profit per share	**546,227,914**	541,035,348

Notes to the consolidated financial statements continued

for the year ended 31 March 2020

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2020 and 31 March 2019:

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 (established on 14 February 2020)	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.

	2020 £000	2019 £000
Fair value at start of year	**676,102**	674,524
Capital expenditure on investment properties	**8,861**	1,559
Disposals	**(33,073)**	(11,269)
Realised gains on disposal	**3,478**	379
Unrealised movement on investment properties	**(882)**	10,909
Fair value at the end of the year	**654,486**	676,102
Historic cost at the end of the year	**629,932**	648,044

The fair value of investment properties reconciles to the appraised value as follows:

	2020 £000	2019 £000
Appraised value	**664,615**	685,335
Valuation of assets held under head leases	**1,489**	1,565
Lease incentives held as debtors	**(11,618)**	(10,798)
Fair value at the end of the year	**654,486**	676,102

The investment properties were valued by independent valuers, CBRE Limited, Chartered Surveyors, as at 31 March 2020 and 31 March 2019 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 based on their professional judgement and market observation.

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 where 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 impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, the external valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to Covid-19 means that external valuers are faced with an unprecedented set of circumstances on which to base a judgement. The valuations across all asset classes are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.

Consequently, less certainty – and a higher degree of caution – should be attached to the valuations provided than would normally be the case. The external valuers have confirmed that the inclusion of the 'material valuation uncertainty' declaration does not mean that valuations cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner, that – in the current extraordinary circumstances – less certainty can be attached to valuations than would otherwise be the case.

As at 31 March 2020 and 31 March 2019 all of the Group's properties are Level 3 in the fair value hierarchy as it involves use of significant inputs. 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:

	2020			2019		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**224,620**	**318,330**	**121,665**	235,035	312,790	137,510
Area (sq ft, 000s)	**808**	**2,570**	**829**	856	2,731	829
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
– range	**£11.00 to £53.59**	**£3.54 to £19.58**	**£3.46 to £81.77**	£9.52 to £51.78	£3.54 to £17.70	£3.88 to £84.11
– weighted average	**£27.92**	**£9.79**	**£32.13**	£27.33	£8.91	£31.50
Net initial yield						
– range	**0.00% to 7.59%**	**-2.54% to 8.16%**	**-0.18% to 25.27%**	2.48% to 8.59%	0.00% to 8.25%	-0.17% to 15.36%
– weighted average	**4.89%**	**4.63%**	**5.25%**	5.15%	4.78%	5.11%
Reversionary yield						
– range	**5.47% to 10.80%**	**4.46% to 10.17%**	**4.36% to 11.97%**	5.32% to 10.70%	4.60% to 9.99%	4.63% to 12.11%
– weighted average	**7.04%**	**5.40%**	**6.63%**	7.01%	5.55%	6.37%
True equivalent yield						
– range	**5.33% to 9.80%**	**4.39% to 9.65%**	**3.97% to 11.95%**	5.24% to 9.49%	4.63% to 9.48%	4.09% to 10.86%
– weighted average	**6.97%**	**5.40%**	**7.17%**	6.88%	5.59%	6.75%

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. In light of this material valuation uncertainty 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	**2020 Impact on valuation**	2019 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £29.3m**	Decrease of £28.7m
	Decrease of 50 basis points	**Increase of £36.1m**	Increase of £34.7m
Office	Increase of 50 basis points	**Decrease of £17.5m**	Decrease of £18.7m
	Decrease of 50 basis points	**Increase of £20.5m**	Increase of £21.3m
Retail and Leisure	Increase of 50 basis points	**Decrease of £10.9m**	Decrease of £12.6m
	Decrease of 50 basis points	**Increase of £13.9m**	Increase of £15.8m

14. Accounts receivable

	2020 £000	2019 £000
Tenant debtors (net of provisions for bad debts)	**5,197**	2,594
Lease incentives	**11,618**	10,798
Other debtors	**786**	917
	17,601	14,309

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate 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 2020, tenant debtors of £1,676,000 (2019: £918,000) were considered impaired and provided for.

15. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**23,564**	24,454
Short-term deposits	**3**	714
	23,567	25,168

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.

16. Accounts payable and accruals

	2020 £000	2019 £000
Accruals	**5,263**	6,596
Deferred rental income	**7,817**	8,381
VAT liability	**1,685**	1,994
Income tax liability	**–**	57
Trade creditors	**1,058**	230
Other creditors	**3,615**	5,142
	19,438	22,400

17. Loans and borrowings

	Maturity	2020 £000	2019 £000
Current			
Aviva facility	–	**1,258**	1,204
Capitalised finance costs	–	**(370)**	(371)
		888	833
Non-current			
Santander revolving credit facility	18 June 2021	**–**	11,500
Santander revolving credit facility	20 June 2021	**–**	14,500
Canada Life facility	24 July 2027	**80,000**	80,000
Aviva facility	24 July 2032	**86,207**	87,465
Capitalised finance costs	–	**(1,959)**	(2,329)
		164,248	191,136
		165,136	191,969

The following table provides a reconciliation of the movement in loans and borrowings to cash flows arising from financing activities.

	2020 £000	2019 £000
Balance as at 1 April	**191,969**	210,664
Changes from financing cash flows		
Proceeds from loans and borrowings	**6,000**	15,500
Repayment of loans and borrowings	**(33,204)**	(34,871)
	(27,204)	(19,371)
Other changes		
Amortisation of financing costs	**371**	676
	371	676
Balance as at 31 March	**165,136**	191,969

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 £307.5 million (2019: £292.4 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 £1.2 million in the year (2019: £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 £189.0 million (2019: £230.3 million).

As at 31 March 2020 the Group had two revolving credit facilities ('RCFs') with Santander Corporate & Commercial Banking which expired in June 2021. In total the Group had £49.0 million (2019: £51.0 million) available under both facilities; there is nothing drawn down under these facilities at the year end. Interest was payable on drawn balances at LIBOR plus margins of 175 or 190 basis points. The facilities were secured on properties held by Picton (UK) REIT (SPV No 2) Limited and Picton (UK) Listed Real Estate, valued at £131.8 million (2019: £133.7 million). Post year end, both RCFs were cancelled and replaced with a new £50.0 million RCF.

The fair value of the drawn loan facilities at 31 March 2020, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £197.0 million (2019: £219.5 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 2020 was 4.2% (2018: 4.0%).

18. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of 11 properties with commitments outstanding at 31 March 2020 of approximately £4.5 million (2019: £1.4 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2020 (2019: £nil).

19. Share capital and other reserves

	2020 £000	2019 £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 2019: 540,053,660)	**–**	–
Share premium	**164,400**	157,449

On 21 June 2019 the Company raised £7.1 million through the issue of 7,551,936 new ordinary shares of no par value at 94.5 pence per share. The Company now has 547,605,596 ordinary shares in issue of no par value (31 March 2019: 540,053,660).

19. Share capital and other reserves continued

The balance of the Company's share premium account as at 31 March 2020 was £164,400,000 (31 March 2019: £157,449,000).

	2020 Number of shares	2019 Number of shares
Ordinary share capital	**547,605,596**	540,053,660
Number of shares held in Employee Benefit Trust	**(2,103,683)**	(1,542,000)
Number of ordinary shares	**545,501,913**	538,511,660

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 2,103,683 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.

20. Adjustment for non-cash movements in the cash flow statement

	2020 £000	2019 £000
Profit on disposal of investment properties	**(3,478)**	(379)
Movement in investment property valuation	**882**	(10,909)
Share-based provisions	**292**	363
Depreciation of tangible assets	**9**	7
	(2,295)	(10,918)

21. 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:

	2020 £000	2019 £000
Future minimum payments due:		
Within one year	**117**	117
In the second to fifth years inclusive	**466**	466
After five years	**7,266**	7,383
	7,849	7,966
Less: finance charges allocated to future periods	**(6,032)**	(6,146)
Present value of minimum lease payments	**1,817**	1,820

The present value of minimum lease payments is analysed as follows:

	2020 £000	2019 £000
Current		
Within one year	**108**	109
	108	109
Non-current		
In the second to fifth years inclusive	**388**	392
After five years	**1,321**	1,319
	1,709	1,711
	1,817	1,820

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 lessor lease length was as follows (based on annual rentals):

	2020 £000	2019 £000
Within one year	**38,296**	37,497
In the second to fifth years inclusive	**124,942**	113,403
After five years	**111,711**	88,902
	274,949	239,802

These properties are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than five years.

22. 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 19.

23. 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 17, 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 2020	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	14	–	**5,983**	**5,983**
Cash and cash equivalents	15	–	**23,567**	**23,567**
		–	**29,550**	**29,550**
Financial liabilities				
Loans and borrowings	17	–	**165,136**	**165,136**
Obligations under head leases	21	–	**1,817**	**1,817**
Creditors and accruals	16	–	**9,936**	**9,936**
		–	**176,889**	**176,889**

31 March 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	14	–	3,511	3,511
Cash and cash equivalents	15	–	25,168	25,168
		–	28,679	28,679
Financial liabilities				
Loans and borrowings	17	–	191,969	191,969
Obligations under head leases	21	–	1,820	1,820
Creditors and accruals	16	–	11,968	11,968
		–	205,757	205,757

24. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. 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 the optimisation of the debt and equity balance. 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 17, 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 the gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 17, 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:

	2020 £000	2019 £000
Total borrowings	**167,465**	194,669
Gross assets	**695,674**	715,604
Gearing ratio (must not exceed 65%)	**24.1%**	27.2%

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 has two revolving credit facilities which provide greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2020 £000	2019 £000
Total liabilities	**186,391**	216,189
Less: cash and cash equivalents	**(23,567)**	(25,168)
Net debt	**162,824**	191,021
Total equity	**509,283**	499,415
Net debt to equity ratio at end of year	**0.32**	0.38

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

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	14	**–**	**5,197**	**5,197**
Cash and cash equivalents	15	**–**	**23,567**	**23,567**
		–	**28,764**	**28,764**

31 March 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	14	–	2,594	2,594
Cash and cash equivalents	15	–	25,168	25,168
		–	27,762	27,762

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. Credit exposure is controlled by counterparty limits that are reviewed regularly.

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 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 exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. 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 2020 and at 31 March 2019 Standard & Poor's 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 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)**

31 March 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	25,177	–	–	25,177
Debtors	3,511	–	–	3,511
Capitalised finance costs	371	1,062	1,267	2,700
Obligations under head leases	(117)	(466)	(7,383)	(7,966)
Fixed interest rate loans	(8,332)	(33,329)	(201,591)	(243,252)
Floating interest rate loans	(360)	(26,869)	–	(27,229)
Creditors and accruals	(11,968)	–	–	(11,968)
	8,282	(59,602)	(207,707)	(259,027)

24. Risk management continued

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 revenue 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 has increased given the Covid-19 pandemic and the resultant effect on tenants' 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 lower the risk profile of the portfolio. 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 £33.2 million (2019: £34.3 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facilities only. The Group's senior debt facilities have fixed interest rates over the terms of the loans and thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

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)**

31 March 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	25,168	–	–	25,168
Secured loan facilities	–	(26,000)	–	(26,000)
Fixed				
Secured loan facilities	(1,204)	(5,377)	(160,884)	(167,465)
Obligations under leases	(109)	(392)	(1,319)	(1,820)
	23,855	(31,769)	(162,203)	(170,117)

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 4.2% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

25. Related party transactions

The total fees earned during the year by the Non-Executive Directors of the Company amounted to £250,000 (2019: £257,000). As at 31 March 2020 the Group owed £nil to the Non-Executive Directors (2019: £nil). The emoluments of the Executive Directors are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

26. Events after the balance sheet date

A dividend of £3,409,000 (0.625 pence per share) was approved by the Board on 27 April 2020 and was paid on 29 May 2020.

On 27 May 2020 the Group entered into a new £50 million revolving credit facility; this replaces the existing facilities held with Santander Corporate & Commercial Banking which have been cancelled.

Post Balance Sheet event disclosure

The global outbreak of Covid-19 in 2020 has resulted in significant loss of life, adversely impacted commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak evolved rapidly and, on 11 March 2020, the World Health Organization declared a pandemic. Many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures.

Such measures, as well as the general uncertainty surrounding the dangers and impact of Covid-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of Covid-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As Covid-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

The outbreak of Covid-19 and the resulting financial and economic market uncertainty could have a significant adverse impact on the Group. Any future impact on the Group is likely to be in connection with the assessment of the fair value of investments and stability of rental income at future dates. At the date of reporting it is not possible to quantify the future financial impact of Covid-19 on the Company's investment properties or rental income with a degree of certainty. The Board will continue to closely analyse and review the impact of Covid-19 on the Company and will take appropriate action as required.

Additional Information

Supplementary disclosures (unaudited)

for the year ended 31 March 2020

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.

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.

	2020 £000	2019 £000	2018 £000
Profit for the year after taxation	**22,508**	30,955	64,168
Exclude:			
Investment property valuation movement	**882**	(10,909)	(38,920)
Gains on disposal of investment properties	**(3,478)**	(379)	(2,623)
Debt prepayment fees	**–**	3,245	–
EPRA earnings	**19,912**	22,912	22,625
Weighted average number of shares in issue (000s)	**544,193**	538,816	539,734
EPRA earnings per share	**3.7p**	4.3p	4.2p

EPRA NAV per share

The EPRA Net asset value highlights the fair value of net assets on an ongoing, long-term basis. It excludes 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.

	2020 £000	2019 £000	2018 £000
Balance Sheet net assets	**509,283**	499,415	487,355
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NAV	**509,283**	499,415	487,355
Shares in issue (000s)	**545,502**	538,512	538,984
EPRA NAV per share	**93p**	93p	90p

EPRA NNNAV per share

The EPRA triple net asset value includes the fair value adjustments in respect of all material balance sheet items.

	2020 £000	2019 £000	2018 £000
EPRA NAV	**509,283**	499,415	487,355
Fair value of debt	**(29,569)**	(24,811)	(21,106)
Deferred tax	**–**	–	–
EPRA NNNAV	**479,714**	474,604	466,249
Shares in issue (000s)	**545,502**	538,512	538,984
EPRA NNNAV per share	**88p**	88p	87p

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.

	2020 £000	2019 £000	2018 £000
Investment property valuation	**664,615**	685,335	683,800
Allowance for estimated purchasers' costs	**44,847**	46,771	46,197
Grossed up property portfolio valuation	**709,462**	732,106	729,997
Annualised cash passing rental income	**36,236**	37,699	41,360
Property outgoings	**(2,017)**	(1,896)	(1,327)
Annualised net rents	**34,219**	35,803	40,033
EPRA net initial yield	**4.8%**	4.9%	5.5%

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).

	2020 £000	2019 £000	2018 £000
EPRA NIY annualised net rents	**34,219**	35,803	40,033
Annualised cash rent that will apply at expiry of lease incentives	**3,910**	2,739	3,160
Topped-up annualised net rents	**38,129**	38,542	43,193
EPRA 'topped-up' NIY	**5.4%**	5.3%	5.9%

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.

	2020 £000	2019 £000	2018 £000
Annualised potential rental value of vacant premises	**5,179**	4,828	1,995
Annualised potential rental value for the complete property portfolio	**45,224**	46,839	47,854
EPRA vacancy rate	**11.5%**	10.3%	4.2%

Additional Information

Supplementary disclosures (unaudited) continued

EPRA cost ratio

EPRA cost ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2020 £000	2019 £000	2018 £000
Property operating costs	**2,293**	2,342	2,578
Property void costs	**3,005**	1,373	1,830
Administrative expenses	**5,563**	5,842	5,566
Less:			
Ground rent costs	**(259)**	(256)	(217)
EPRA costs (including direct vacancy costs)	**10,602**	9,301	9,757
Property void costs	**(3,005)**	(1,373)	(1,830)
EPRA costs (excluding direct vacancy costs)	**7,597**	7,928	7,927
Gross rental income	**37,780**	40,942	41,412
Less ground rent costs	**(259)**	(256)	(217)
Gross rental income	**37,521**	40,686	41,195
EPRA cost ratio (including direct vacancy costs)	**28.3%**	22.9%	23.7%
EPRA cost ratio (excluding direct vacancy costs)	**20.2%**	19.5%	19.2%

Capital expenditure

The table below sets out the capital expenditure incurred over the financial year, in accordance with EPRA Best Practices Recommendations.

	2020 £000	2019 £000	2018 £000
Acquisitions	**–**	–	–
Development	**–**	–	–
Like-for-like portfolio	**8,861**	1,559	3,553
Other	**–**	–	–
Total capital expenditure	**8,861**	1,559	3,553

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	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Like-for-like rental income	**12,925**	13,657	**15,738**	15,953	**7,958**	9,398	**36,621**	39,008
Properties acquired	**–**	–	**–**	–	**–**	–	**–**	–
Properties sold	**534**	1,160	**625**	774	**–**	–	**1,159**	1,934
	13,459	14,817	**16,363**	16,727	**7,958**	9,398	**37,780**	40,942

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.

	2020 £000	2019 £000	2018 £000
Total borrowings	**167,465**	194,669	214,040
Less:			
Cash and cash equivalents	**(23,567)**	(25,168)	(31,510)
Total net borrowings	**143,898**	169,501	182,530
Investment property valuation	**664,615**	685,335	683,800
Loan to value	**21.7%**	24.7%	26.7%

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.

	2020 £000	2019 £000	2018 £000
Administrative expenses	**5,563**	5,842	5,566
Less:			
REIT conversion and restructuring costs	**–**	(215)	(307)
Recurring administrative expenses	**5,563**	5,627	5,259
Average net asset value over the year	**511,868**	497,304	470,252
Cost ratio	**1.1%**	1.1%	1.1%

Additional Information
Property portfolio

Properties valued in excess of £40 million
- Parkbury Industrial Estate, Radlett, Herts.
- 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
- Tower Wharf, Cheese Lane, Bristol
- 50 Farringdon Road, London EC1
- Express Business Park, Shipton Way, Rushden, Northants.
- Datapoint, Cody Road, London E16
- 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
- Metro, Salford Quays, Manchester
- Grantham Book Services, Trent Road, Grantham, Lincs.
- Sundon Business Park, Dencora Way, Luton, Beds.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- 180 West George Street, Glasgow
- B&Q, Queens Road, Sheffield
- Nonsuch Industrial Estate, Kiln Lane, Epsom, Surrey
- 401 Grafton Gate East, Milton Keynes, Bucks.
- Gloucester Retail Park, Eastern Avenue, Gloucester
- Parc Tawe North Retail Park, Link Road, Swansea
- Vigo 250, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 million and £10 million
- Units 1 & 2, Kettlestring Lane, York
- Queens House, St Vincent Place, Glasgow
- Easter Court, Europa Boulevard, Warrington
- Trident House, Victoria Street, St Albans, Herts.
- Units 1 & 2, Western Industrial Estate, Downmill Road, Bracknell, Berks.
- Swiftbox, Haynes Way, Rugby, Warwickshire
- Angouleme Retail Park, George Street, Bury, Greater Manchester
- Thistle Express, The Mall, Luton, Beds.
- Atlas House, Third Avenue, Marlow, Bucks.
- Sentinel House, Harvest Crescent, Fleet, Hants.
- Longcross Court, Newport Road, Cardiff
- Regency Wharf, Broad Street, Birmingham
- Crown & Mitre Complex, English Street, Carlisle, Cumbria

Properties valued under £5 million
- Scots Corner, High Street, Kings Heath, Birmingham
- 53-57 Broadmead, Bristol
- Waterside House, Kirkstall Road, Leeds
- 62-68 Bridge Street, Peterborough
- 78-80 Briggate, Leeds
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- 17-19 Fishergate, Preston, Lancs.
- 72-78 Murraygate, Dundee
- Magnet Trade Centre, 6 Kingstreet Lane, Winnersh, Reading
- 7-9 Warren Street, Stockport
- 6-12 Parliament Row, Hanley, Staffs.
- 18-28 Victoria Lane, Huddersfield, West Yorks.

Five year financial summary

	2020	2019	2018	2017	2016
Income statements					
Net property income	**33.6**	38.3	38.5	42.3	35.9
Administrative expenses	**(5.6)**	(5.6)	(5.3)	(5.0)	(4.4)
Exceptional costs	**–**	(0.2)	(0.3)	(0.2)	–
	28.0	32.5	32.9	37.1	31.5
Net finance costs	**(8.2)**	(9.1)	(9.7)	(10.8)	(11.4)
Income profit before tax	**19.8**	23.4	23.2	26.3	20.1
Tax	**0.1**	(0.5)	(0.5)	(0.5)	(0.2)
Income profit	**19.9**	22.9	22.7	25.8	19.9
Property gains and losses	**2.6**	11.3	41.5	17.0	44.9
Debt prepayment fee	**–**	(3.2)	–	–	–
Profit after tax	**22.5**	31.0	64.2	42.8	64.8
Dividends paid	**19.0**	18.9	18.5	18.0	17.8

	2020	2019	2018	2017	2016
Balance sheets					
Investment properties	**654.5**	676.1	670.7	615.2	646.0
Borrowings	**(167.5)**	(194.7)	(214.0)	(204.6)	(249.5)
Other assets and liabilities	**22.3**	18.0	30.7	31.3	20.6
Net assets	**509.3**	499.4	487.4	441.9	417.1
Net asset value per share (pence)	**93**	93	90	82	77
EPRA net asset value per share (pence)	**93**	93	90	82	77
Earnings per share (pence)	**4.1**	5.7	11.9	7.9	12.0
Dividends per share (pence)	**3.5**	3.5	3.4	3.3	3.3
Dividend cover (%)	**105**	122	122	144	112
Share price (pence)	**89.0**	89.2	84.3	83.8	69.8

All figures are in £ million unless otherwise stated.

Additional Information
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.
LIBOR	London Interbank Offered Rate is a benchmark interest rate that indicates borrowing costs between banks.
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.
Rack-rented	Space where the passing rent is the same as the ERV.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
Total property return	Combined ungeared income and capital return from the property portfolio.
Total return	Measures the performance of the Group based on its published results.
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.

Financial calendar

Annual results announced	23 June 2020
Annual results posted to shareholders	July 2020
June 2020 NAV announcement	July 2020 (provisional)
Annual General Meeting	November 2020 (provisional)
2020 half-year results to be announced	November 2020 (provisional)
December 2020 NAV announcement	January 2021 (provisional)
Dividend payment dates	August/November/February/May

Additional Information
Shareholder information

Directors
Nicholas Thompson (Chairman)
Mark Batten
Maria Bentley
Andrew Dewhirst
Roger Lewis
Michael Morris
Nicholas Wiles (appointed 1 January 2020, resigned 20 May 2020)

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All enquiries relating to holdings in Picton Property Income Limited, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to the Company's registrars.

Website
The Company has a corporate website which contains more detailed information about the Group **www.picton.co.uk**

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