

CHAIRMAN'S STATEMENT

NICHOLAS THOMPSON



“ We have continued to deliver against our strategy, grow our dividend and performed ahead of the recognised industry benchmark indices. ”

Our latest financial results to March 2018 show that Picton has had another successful year.

Net assets have grown by over 10% to £487 million and profit after tax compared to the previous year increased 50% to £64 million. The Group's net asset value per share was 90 pence at the year end and earnings per share rose to 12 pence.

These results reflect successes at the portfolio level, combined with the positive impact of gearing. We have continued to deliver against our strategy, grow our dividend and performed ahead of the recognised industry benchmark indices.

Strategy

Income is the key component of the property sector's total return. As an investment company, our investment objective is to deliver an attractive level of income, with the potential for capital growth. Over the last 12 months we have achieved this with a focus on increasing occupancy, growing income and improving our asset base.

We have made progress on the preparatory work ahead of our conversion to a UK Real Estate Investment Trust (REIT) and have provided more detail about this further on. This change of status and the associated efficiencies it brings emphasises our commitment to being one of the consistently best performing diversified UK focused property companies listed on the main market of the London Stock Exchange.

Performance

Over the financial year, the Company delivered a total return of 14.9%, which is considerably higher than the preceding year and reflects improved conditions within the property market.

At a portfolio level, we continue to outperform the MSCI IPD Quarterly Benchmark. Our track record of outperformance now extends over one, three, five and ten years. In April, MSCI IPD introduced an award for Best Listed Fund which Picton won for achieving the best relative ungeared performance against its Benchmark.

Furthermore, in recognition of the Company's track record and performance, we are delighted to have received awards from Citywire, Money Observer, FT Advisor, Investment Week, and Moneywise over the course of the year. Additionally, EPRA (the European Public Real Estate Association) awarded Picton with Gold and Silver Awards for last year's Annual Report within the financial and sustainability reporting categories respectively.

Our total shareholder return was more muted at 4.8%, which was partly a reflection of the strong return of over 25% in the preceding financial year. This is a feature of listed property companies, where it is not uncommon over the short-term for share price and net asset value to be uncorrelated.

Capital Structure

Our current loan to value ratio is 27%, a slightly lower level to last year, despite using some of our revolving credit facility to purchase the new Bristol asset.

We are focused on continuing to strengthen the Balance Sheet and our intention is to reduce gearing further over the next 12 months through selective asset sales.

Property Portfolio

We have seen good valuation growth across the portfolio, primarily in the industrial and office sectors. The portfolio value has increased by 10% to £684 million, more detail on which is provided in the Investment Manager's Report. We have only made a few selective disposals and one acquisition over the year but these have contributed positively to performance.

Equally pleasing is that we were able to increase occupancy in our portfolio to 96%, up from 94% a year ago, and also increase the average lot size which now stands at £13.4 million, up by 14% over the period.

TOTAL PROFIT

£64.2m

NET ASSETS

£487.4m

NAV PER SHARE

90p

EARNINGS PER SHARE

12p



REIT Conversion

At the time of our last Half Year Report, I advised that we were awaiting an announcement of new legislation in the UK regarding the taxation of non-resident landlord companies such as Picton. Six months later and there are now two new pieces of legislation being introduced that will impact Picton. The first is that non-resident landlord companies will be brought into the scope of UK corporation tax, from 1 April 2020. The result of this is that we would expect our liability to UK tax to increase significantly from that date. Additionally, from 1 April 2019, capital gains made by a non-resident on the disposal of commercial property will be subject to UK tax.

Therefore, any disposals the Company makes from its portfolio after that date will be taxed, consequently reducing shareholder returns. I have stated previously that we were preparing plans to convert to a UK REIT in the event of tax changes adversely affecting Picton, and these have now been finalised. We will shortly be issuing a circular to shareholders with our detailed proposals, including a number of resolutions to be voted on at a General Meeting in July.

In summary, we wish to enter the REIT regime on 1 October this year, after becoming tax resident in the UK, which is a condition of entry. There will be some changes proposed to the articles of the Company to facilitate the REIT conversion. At the same time we are proposing to transfer our technical listing status from an investment company to a commercial

company, which we believe is more appropriate for Picton and is consistent with the vast majority of internally managed UK REITs. As a result there will be changes to the way the Company is managed once we are based in the UK, including having a business strategy rather than an investment objective. We will no longer have an investment management subsidiary but will be managed through a traditional board structure with an executive function. However, our investment approach and portfolio strategy will remain very similar.

We have set out, separately within this report, a 'Question and Answer' section on the proposed changes, and within the Governance section there is also more detail regarding management changes and the role of the Board. We believe that these changes represent an important step in the evolution of the Company and recommend their approval by shareholders.

Dividends

I am pleased to report that in each of the last three financial years we have increased our dividend, most recently by 3% in February 2018. During this year we paid dividends to shareholders of £18.5 million, an increase of 3% compared to last year, with dividend cover of 122%.

We have continued to maintain a covered dividend throughout the year, in line with our strategy and enabling reinvestment back into the portfolio. Once we are in the UK REIT regime, we will review our dividend level in light of prevailing market conditions.

DIVIDEND COVER

122%

DIVIDENDS TO SHAREHOLDERS

£18.5m

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Governance and Board Composition

The Board takes matters of governance extremely seriously and has provided more detail in the Governance section.

We believe investors benefit from the rigour applied to listed companies generally and the governance and reporting structures we have developed at Picton.

This year we will be bringing our Annual General Meeting forward to September. We expect this to be the last one held in Guernsey. As a UK REIT, General Meetings will be held in the UK, strengthening the link between the Company and its shareholders.

During the year Mark Batten was appointed as a non-executive director and will become Chair of the Audit and Risk Committee in July.

Robert Sinclair, the current Chair of this Committee, will, as previously announced, retire in September. On behalf of all his colleagues here at Picton I would like to thank him for his dedicated service to the Company since its launch in 2005.

As part of our transition to a UK REIT, Vic Holmes will also retire from the Board in September this year. Vic, who is currently Chair of the Remuneration Committee, has been with Picton since 2013 and, equally, I would like to thank him for his service and contribution during his tenure. We are currently in the process of selecting a suitable replacement for this role and expect to have made an appointment within the next few months.

Also, as we bring management and control to the UK, Michael Morris, who is currently a non-executive director, will become Chief Executive, with effect from 1 October 2018. At the same time, Andrew Dewhirst will join the Board as Finance Director.

Outlook

We maintain a positive outlook for a number of reasons. From a top-down perspective, the portfolio remains well positioned with its overweight industrial, underweight retail bias. Our ability to invest across geographies and sectors within the UK and reshape the portfolio according to market conditions is beneficial and, as the results have shown, can deliver attractive returns.

Looking at the portfolio in detail, occupancy is at a high level and we have a number of exciting initiatives planned that should further enhance our asset base and grow income, capturing the inherent reversionary potential.

Subject to shareholder approval, we will be converting to a UK REIT alongside which we will be simplifying our corporate structure, with a view to improving efficiency and profitability.

Notwithstanding the risks associated with current economic conditions and the Brexit transition in particular, we believe these are exciting times for the Company. We want to build on our track record and continue to deliver efficiencies for shareholders as we grow. We have a clear business strategy, and we are confident that this will enable Picton to flourish within the UK REIT regime.

Nicholas Thompson Chairman

4 June 2018

