INVESTMENT MANAGER'S REPORT

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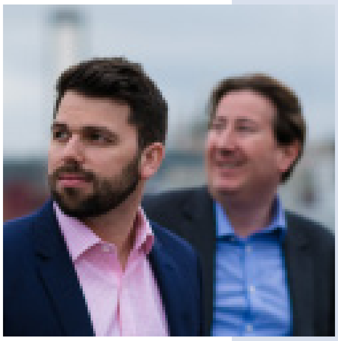

We have had another successful year with our occupier focused and opportunity led approach.

Our asset allocation and proactive management of the portfolio, including value accretive investment activity, have enabled us to again outperform the MSCI IPD Quarterly Benchmark on a total return basis over one, three, five and ten years. For the third year running, we have won the MSCI IPD data quality award for our submissions as part of this benchmarking process.

Our portfolio now comprises 51 assets, with over 360 occupiers and is valued at £683.8 million. As a result of leasing activity and active management, the passing rent is now £41.4 million, increasing by 3.9% on a like-for-like basis and the estimated rental value (ERV) of the portfolio is £47.9 million, growing by 2.4% on a like-for-like basis.

We have completed 24 lettings securing over £2.1 million of income, 3.7% ahead of the March 2017 ERV. We have grown occupancy by 2% over the year to 96%, which is particularly pleasing and in line with our desire to maintain higher than benchmark occupancy. We completed 20 lease renewals and re-gears retaining over £1.9 million of income, 14.3% ahead of the March 2017 ERV.

One acquisition was made during the year for £23.2 million and three non-core assets were sold for proceeds of £10.4 million, 37% ahead of the March 2017 valuation. The net effect of these transactions is that the average lot size has increased by 14% to £13.4 million.

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 unlock further value.

The occupier markets have remained resilient, especially in the industrial and regional office sectors, where we have seen good demand further improving our occupancy figures. Central London has seen a slight weakening of demand which has resulted in incentives increasing.

There has been well publicised disruption in the retail and leisure sector, which is primarily a result of changing shopping habits, increased occupational costs, due to business rates, and the impact of the living wage. We expect this situation to continue, especially in the mid-range sector, which will increase supply, noting that the budget sector is still expanding. We have a low weighting to the sector with high occupancy, well located units and mostly rebased rents. We see opportunity to create value in the medium-term through active management while maintaining a high income return.

In terms of wider trends affecting the markets we are operating in, the Minimum Energy Efficiency Standards (MEES) regulations became effective on 1 April 2018 in England and Wales. From this date it will be illegal to renew or grant new tenancies at properties that have F or G EPC ratings and from 2023 the scope of the regulations increases to include existing leases. We identified this risk a number of years ago and now have 99% of EPCs that are compliant, with remaining assets having action plans in place. We were also pleased to be on the steering group for the IPF Research document: Costing Energy Efficiency Improvements in Existing Commercial Buildings 2017, which was published in November and is a key industry publication looking at the value of a broad range of energy efficiency measures to upgrade the energy performance of buildings and strategies to reflect current market standards.

The changes to how businesses use space with a focus on flexibility, staff amenities and connectivity continue to have an impact on the office market. Our occupier focus means we work with our occupiers to 'right size' their space, as shown in some of the examples in the sector updates. Over the year we have continued to proactively engage with our occupiers and have recently introduced occupier surveys, in addition to our quarterly occupier newsletter. We have had a good response to date and will be rolling out this initiative across the portfolio over the coming year.

Examples of how we are increasing occupier amenities include at 50 Farringdon Road, EC1 where we are looking to install a roof terrace for the use of the occupiers, and at Longcross Court, Cardiff, where the planned refurbishment includes occupier amenity areas. We are also planning to increase bicycle storage and shower facilities across the portfolio, trial an initiative which encourages occupiers to use stairs and, with sustainability in mind, we are installing bee hives on the roof of Queens House in Glasgow – this was an initiative that got strong support following one recent occupier survey.

We realise connectivity is of crucial importance to all business and our aim is to continue to improve the connectivity across the portfolio. Over the year we have been working with WiredScore, an international connectivity rating system, to improve connectivity in ten of our office buildings. We were pleased to have the first building in Scotland to be Wired Certified at 180 West George Street in Glasgow which secured a gold certification. This means the building is recognised for leading its class in internet infrastructure and superior internet connectivity.

ESTIMATED RENTAL VALUE

£47.9m

OCCUPANCY

96%

AVERAGE LOT SIZE

£13.4m

Portfolio Performance

The portfolio's total return for the year to 31 March 2018 was 13.0%, outperforming the MSCI IPD Quarterly Benchmark, which delivered 10.1%. Our continued overweight position to the industrial sector and regional offices, together with the active management carried out, has contributed to this outperformance.

As at 31 March 2018, the portfolio generated a net initial yield of 5.5% after void costs with a reversion to 6.6%. The portfolio's valuation for the year grew by 6.5% on a like-for-like basis. We saw positive valuation growth in the industrial sector of 12.6% and in the office sector of 6.1%. The retail and leisure holdings, despite remaining 97% let, declined in value by 2.3% reflecting the subdued outlook in the retail sector.

Overall, like-for-like growth in the portfolio's estimated rental values was 2.4% during the year to March 2018. Estimated rental values in the industrial sector grew by 3.7% and by 3.6% in the office sector. The retail and leisure estimated rental values declined by 1.5%, with the retail warehouse element remaining flat.

The estimated rental value of the void space is £2.0 million per annum, with four properties accounting for over half the void. Our largest letting opportunity is at 180 West George Street in Glasgow, a market which is seeing improving activity levels. The building presents exceptionally well and we expect to secure occupiers and enhance our income position.

Outlook for the coming year

Our outlook has not fundamentally changed since last year, with strong occupational demand in the industrial and regional office markets set to continue with rents rising. Continuing issues around Brexit have resulted in ongoing uncertainty for central London offices with rents remaining static or decreasing slightly, and incentives moving out.

The retail and leisure sector has had some well publicised failures recently and we see this set to continue in the mid-market sector on the back of increased costs and changing shopping habits. We do not see the retail and leisure sector rebounding in the short-term, hence our underweight position, however there are opportunities on an asset-by-asset basis.

Our portfolio strategy remains unchanged, the de-risking of income through active management and capturing rental growth is our key focus. We believe we remain well placed to grow income and add further value to the portfolio.

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