

Q&A

REIT CONVERSION

“ By becoming a REIT Picton will benefit from an established tax exempt regime and will be able to maintain or enhance shareholder returns. ”

Why are we planning to convert to a REIT?

In November 2017 the UK government announced changes to the taxation of non-resident companies, bringing them into the scope of UK corporation tax with effect from 1 April 2020, and also taxing gains made by non-residents on the disposal of UK commercial properties (both directly and indirectly) from 1 April 2019. Both changes are likely to have an adverse impact on the tax liability of Picton, and on shareholder returns.

The UK REIT regime was introduced in 2006, and is a tax efficient structure for UK tax resident listed companies investing in real estate. A company within the REIT regime is exempt from UK tax on income or gains arising from its property rental business, subject to meeting certain conditions.

By becoming a REIT, Picton will benefit from an established tax exempt regime which should enhance shareholder returns.

What other benefits are there in being a REIT?

REITs are a recognised ‘brand’ internationally which helps to attract a wider investor base. By becoming a REIT, Picton expects to benefit from increased liquidity in its shares.

Currently, Picton does have some UK tax on its activities and, as a REIT, this tax is expected to reduce to a minimal amount.

What changes will there be to dividends?

We will continue to pay dividends on a quarterly basis, on the same dates: at the end of February, May, August and November each year.

As a REIT, each dividend will potentially comprise two parts – a normal dividend and a Property Income Distribution (PID). The PID, which is expected to comprise the majority of each dividend, is paid from the net income profits of the REIT’s tax exempt rental business and there is a requirement to distribute at least 90% of this income on an annual basis. Subject to some exceptions (including ISAs), PIDs are subject to withholding tax at the basic rate of income tax, currently 20%. The balance of any dividend will be paid as normal, and there is no withholding tax on this element.

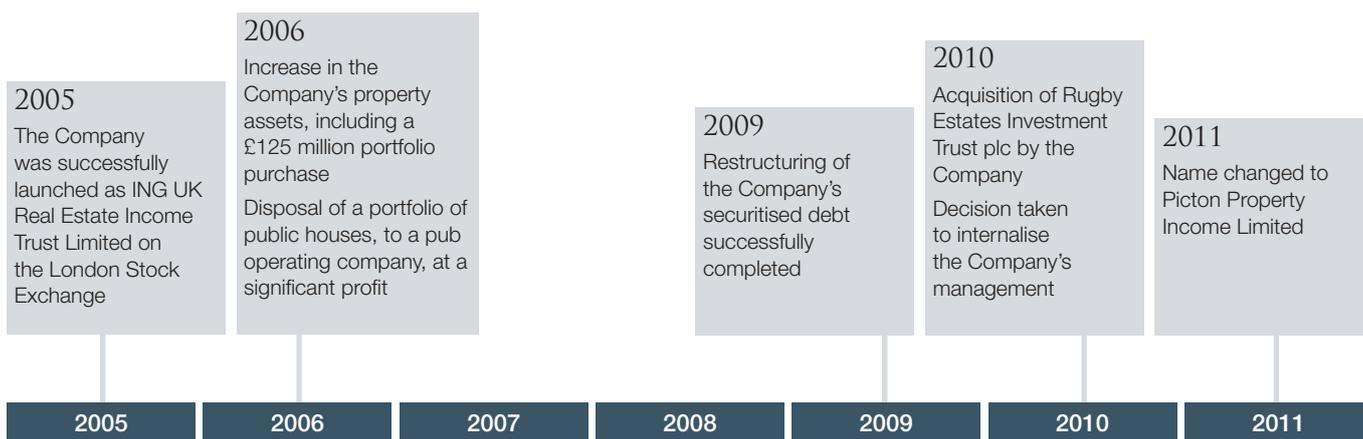
What are the conditions of being a REIT?

There are a number of conditions which a REIT must meet in order to be eligible for and to remain in the regime.

A key condition is that a REIT must be solely tax resident in the UK. To meet this we intend to hold all of our Board meetings and AGMs in the UK, from October this year, bringing management and control to the UK.

There are other conditions that must be met, such as the distribution to shareholders of at least 90% of the net income profits from the tax exempt property business each year (the PID). These will be set out in more detail in the forthcoming circular but we believe that we will be able to satisfy them all, once tax resident in the UK.

OUR HISTORY



What is the Listing Category and why is it significant?

The listing category of a company is how a company is classified on the London Stock Exchange. There are different rules and obligations according to which listing category a company falls under. For a company with a Premium listing (the highest regulatory standard) there are three categories – commercial companies, closed ended investment funds and open ended investment companies.

An investment company must have a defined investment policy and must manage its assets in accordance with that policy and any restrictions in place. A commercial company does not have any such policy, giving more flexibility, but shareholders have the protection of Class Tests.

Why does the Board want to change Picton's listing category?

When Picton was first established in 2005 it was classified as a closed ended investment fund, and still is. Since then we have become internally managed, which is unusual for an investment company, and now we believe it is in the best interests of the Company to move onshore and become a UK REIT with management and control in the UK. The overwhelming majority of internally managed UK REITs are classified as commercial companies, and Picton will fall within this group, making peer group comparison easier for investors.

What will change if Picton becomes a commercial company?

Our business strategy will remain broadly the same. We will continue to own and manage a diversified commercial property portfolio across the UK, and maintain our occupier focused and opportunity led approach. Internally, we will operate slightly differently. We will no longer have an investment management subsidiary. Instead the day-to-day running of the business will be carried out by the executive team, headed by the Chief Executive, under authority delegated by the Board. This will improve transparency and accountability of the executive function for shareholders.

COUNTDOWN TO REIT CONVERSION 2018

