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TR PROPERTY INVESTMENT TRUST PLC

Financial Report for the half year ended 30 September 2017

23 November 2017

Financial Highlights and Performance

	At 30 September 2017 (Unaudited)	At 31 March 2017 (Audited)	% Change
Balance Sheet			
Net asset value per share	**382.46p**	352.42p	+8.5
Shareholders' funds (£'000)	**1,213,740**	1,118,424	+8.5
Shares in issue at the end of the period (m)	**317.4**	317.4	+0.0
Net debt[1]	**13.6%**	13.3%	
Share Price			
Share price	**362.90p**	314.50p	+15.4
Market capitalisation	**£1,152m**	£998m	+15.4

	Half year ended 30 September 2017 (Unaudited)	Half year ended 30 September 2016 (Unaudited)	% Change
Revenue			
Revenue earnings per share	**8.77p**	7.14p	+22.8
Interim dividend per share	**4.65p**	4.10p	+13.4

	Half year ended 30 September 2017 (Unaudited)	Year ended 31 March 2017 (Audited)
Performance, Assets and Benchmark		
Net Asset Value total return	**+10.4%**	+8.0%
Benchmark total return	**+8.1%**	+6.5%
Share price total return	**+17.6%**	+9.1%
Ongoing Charges[2]		
Excluding performance fee	**N/A**	+0.69%
Excluding performance fee and direct property costs	**N/A**	+0.64%
Including performance fee	**N/A**	+0.80%

1. Net debt is the total value of loan notes and loans (including notional exposure to CFDs) less cash as a proportion of net asset value.
2. Ongoing Charges is an annual calculation therefore does not apply to the half- year.

Dividend

An interim dividend of 4.65p (2017: 4.10p) will be paid on 2 January 2018 to shareholders on the register on 1 December 2017. The shares will be quoted ex-dividend on 30 November 2017.

Chairman's Statement

Introduction

We have had a strong first six months of the financial year with a Net Asset Value total return of 10.4%, ahead of the benchmark return of 8.1%. Our Managers are performing well. Over the same period the share price total return has been 17.6%, boosted by a substantial reduction in the level of discount between the share price and the Net Asset Value. I believe investors recognise and value the continental European exposure together with the consistently healthy dividend growth which is also reflected in the interim dividend announced below.

The geopolitical risks which I referred to in the annual report in May, continue to loom large and nervousness is heightened everywhere including in the markets, because of the unpredicted outcomes we have all witnessed. Globally, uncertainty has increased and the range of potential results has widened.

In Europe, over the past six months, we have experienced elections in the three largest European economies. While the Dutch and French elections brought the stability investors hoped for, the UK general election has left the Government in a weaker position and so made the negotiations with the European Union more difficult. Inevitably, therefore, the environment for UK business and for investment decision making has become less predictable. Economic growth has suffered and this has been reflected in the poor relative performance of UK property companies when compared with their European counterparts.

While it is true that continental Europe has indeed outperformed the UK, it is three distinct submarkets that have performed particularly well over the period regardless of geography. These are logistics/industrial, residential (everywhere except London) and portfolios focussed on long leases with inflation linked income almost regardless of asset type. Our Fund Manager, Marcus Phayre-Mudge, examines this in more detail in his report which follows.

NAV and Share Price Performance

As I have noted above, the Net Asset Value total return was 10.4% over the six month period, however, the discount between the share price and NAV narrowed over the period which combined to produce a share price total return (assuming dividend reinvestment) of 17.6%.

Revenue Results and Dividend

Revenue earnings of 8.77p per share are almost 23% ahead of the prior year earnings at the same stage, when they represented 7.14p per share.

Sterling has been subject to further weakness during the first half of the year and this has enhanced earnings over the half year period compared to the same period in the previous year. Earnings were less affected by sterling weakness by the halfway mark in 2016 because a large proportion of the dividends had already been collected from our continental European holdings when the referendum outcome in June 2016 resulted in a devaluation of the UK currency.

In addition a hoped for but not expected boost came from an historical withholding tax reclaim received in the first half of the year. This reduced the revenue tax charge and enhanced earnings by around 0.67p per share.

Accordingly the Board has announced an interim dividend of 4.65p per share, 13% ahead of last year's interim dividend.

Revenue Outlook
The earnings of the underlying property companies remain healthy and we are seeing some growth in local currency terms. However, with around 64% of our income derived from currencies other than UK sterling, it is important to remember that currency movements have a significant influence on the Fund's income performance. We do not have control over this factor. Therefore, if sterling weakens further then our income will be enhanced but equally, recovery in the currency will adversely affect the income account.

The Board is committed to a growing dividend, however, the impact of even a partial reversal of sterling weakness means that a conservative approach to the overall pay-out will be considered alongside our objective of dividend growth.

Net Debt and Currencies
The level of gearing has remained constant over the period. This reflects the Manager's overall perception of risk. The context is that the portfolio has been adjusted to maintain minimal exposure to UK prime retail and to be underweight against the benchmark to central London offices. Despite this, overall UK exposure has remained constant with a move into a number of alternative sectors such as private rented accommodation and secure income opportunities across several asset classes.

Currency exposure in respect of the capital account (as opposed to the income account referred to above) is maintained in line with the benchmark. Therefore the valuation of a significant proportion of the portfolio which is not denominated in sterling, will increase if sterling weakens and vice versa if the currency strengthens. The currency exposures of the portfolio are set out in a table in the Interim Report and Accounts.

Discount and Share Repurchases
As highlighted earlier the discount of the share price to the Net Asset Value reduced over the period from 10.8% to 5.1%. There were no share repurchases in the half year period.

The Board continues to encourage an active investor relations programme. The Trust is available on a broad range of investor platforms and I would remind investors of our dedicated website (www.trproperty.com) which provides current and background data on the Trust including an informative monthly fact sheet prepared by the Manager.

New Regulations

From the beginning of 2018 the Trust will be affected by significant new regulation.

Markets in Financial Instruments Directive (MiFID) is the framework of European Union legislation for investment services and trading activity. MiFID has been in place since 2007 with the aim of establishing a common internal market and increasing competition across Europe. Following a consultation period a revised set of rules was issued on 15 May 2014 which come into effect on 3 January 2018.

In addition PRIIPs (Packaged Retail and Insurance-based Investment Products) regulation takes effect on 1 January 2018 which will require us to publish a Key Information Document. I feel it is important for investors to understand the basis of the information presented and in particular that the calculations are based purely on historical data and contain no judgemental input at all.

Further background and details are set out in the Manager's report. The obligations under the new rules will fall to our Fund Manager with additional reporting and product governance requirements. The new obligations require additional data to be collected and introduce new rules on the treatment of commissions for transactions.

The fund management sector is adjusting to these new rules as is our own Fund Manager, and the precise implications will become clearer later this year.

Outlook

Our view is that the UK economy will continue to experience headwinds. Employment levels may be close to historic highs but the combination of weakening in both consumer confidence and house price growth, coupled with investment indecision as we await news of progress with the European Union, is expected to lead to economic growth that is slower than for the remainder of Europe. Of course, conversely, if negotiations advance well and there are improved levels of certainty for businesses, then this could lead to a sharp improvement in sentiment, particularly for London as our most internationally orientated conurbation.

The considered reduction in the ECB's bond buying programme (from €60bn to €30bn) due to commence in January 2018, suggests central bank confidence which is positive for the markets and for real estate in particular. Rents are rising in virtually all major continental European cities as economic growth results in a recovery in employment and spending, although we keep a wary eye on political events, not least in Spain.

Such concerns reinforce the importance of our Manager's focus on high quality businesses with strong recurring cash flows and sustainable debt levels. We remain positive about the merits of this income generating asset class, particularly when compared to bonds, yet also vigilant on geopolitical events.

Hugh Seaborn
Chairman
23 November 2017

Directors' Responsibility Statement

The Directors acknowledge responsibility for the interim results and approve this Half-Yearly Financial Report. The principal risks facing the Company are substantially unchanged since the date of the Annual Report for the year ended 31 March 2017 and continue to be as set out in that report.

The Directors of TR Property Investment Trust plc confirm that to the best of their knowledge:

(a) the Half-Yearly Financial Statements have been prepared in accordance with IAS34 as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit for the period of the Group as required by the Disclosure Guidance and Transparency Rules ('DTR') 4.2.4R;

(b) the Chairman's Statement together with the following Manager's Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the report includes a fair review of the information required by DTR 4.2.8R.

Approved by the Board on 23 November 2017 and signed on its behalf by Hugh Seaborn, Chairman

Manager's Report

Performance

The Net Asset Value total return for the six months was 10.4%, ahead of the benchmark of 8.1%. The Chairman also commented on the 17.6% share price total return driven by the substantial reduction in the level of discount between the share price and the net asset value.

The NAV return was primarily fuelled by the performance of Continental European property companies as opposed to the UK names. The European component of the benchmark, when measured in EUR, returned 8.1% whilst the UK companies, measured in GBP returned just 2.4%. Currency, in isolation, was much less of a valuation driver than last year, a period which encompassed the UK Referendum. GBP did continue to weaken against EUR between April and September but only by 3.7%. The Continental European element of the benchmark, when viewed in GBP, therefore returned 11.7%. As at the end of September, the portfolio's equity exposure is 67% European and 33% UK although currency exposure is always maintained in line with that of the benchmark ensuring that the Manager is not attempting to second guess currency markets.

This performance differential between the UK and Continental European property companies reflects not only the ongoing improvement in the economies of Europe but also concerns around the UK economy. Given the slow pace of the Brexit negotiations and the political instability within the Conservatives driven by the damaging General Election result, it is not a surprise that investors are reluctant to buy companies with almost 100% domestic UK earnings. That said, we have been encouraged by the investor demand at asset level and hence the performance of underlying UK commercial property values, particularly office and industrial assets. In essence, property equity investors have been much more bearish about the future than their physical owning cousins. I will examine this feature in more detail later in the report.

Whilst the UK/CE performance differential is the headline message from the period, we also saw stark differences at the sub-regional and sector levels. The German residential businesses performed strongly. There have been periods when these companies' share prices have seen a high correlation with long dated Bunds. The dovish tone from the ECB has helped maintain reduced volatility in bond markets and aided the performance of these companies who continue to have very secure income streams and earnings growing faster than inflation. Both Spanish and Italian property companies enjoyed strong growth in the period with rental growth returning to the office markets in Madrid, Barcelona and Milan. The events in Catalonia post-date this reporting period and are clearly a worrying development.

Besides the residential markets, hotels, industrial/logistics and student accommodation continued to be the other top performing sectors attracting the marketing spin of investing in 'sheds and beds'. Our exposure to Hispania (Spanish tourist hotels), Segro, Argan, Hansteen and VIB Vermoegen (pan European logistics), St Modwen (residential land and industrial) and Unite (student accommodation) all aided performance The key driver of the property valuation gain of our UK physical portfolio in the first half was rental growth across all our industrial assets.

Property Investment Markets

As mentioned earlier, in certain sub-markets, there is currently a broad gulf between the expectations of investors in physical assets and the performance of listed companies exposed to those markets. The Central London office market is the epitome of this phenomena. Transaction volumes are set to reach record levels of over £20bn this calendar year. This purchasing wave is almost exclusively overseas capital but the sums involved are huge and include the trading of London's two newest skyscrapers, 20 Fenchurch Street ('the WalkieTalkie') and 122 Leadenhall Street ('the Cheesegrater'). However beyond those headlines there has been a broad based range of purchasers (Savills estimate 28 nationalities have purchased London commercial property this year) prepared to look beyond the Brexit negotiations and take advantage of the weakness of GBP. Domestic buyers remain scarce and the discounts to asset value at which Great Portland Estates and Derwent London share prices currently stand reflect the market expectation that demand will wilt and rents will fall next year. However this expected weakness is not yet materialising in asset pricing. It is fair to comment that the Central London office market is experiencing an atypical pricing environment with rents either stagnating or falling but yields remaining firm and indeed exceeding expectations for prime assets being acquired by overseas investors.

The polar opposite can be said for retail. There is very little investor demand for the underlying assets and there has been very little transactional evidence. Vendors are not forced sellers, debt remains very cheap and buyers want bargains in a sector which is unloved. Whilst the deals have yet to close the expectation of a sale of Intu's share of Chapelfield in Norwich and a 7% slice of Bluewater are two transactions eagerly awaited by market participants and the valuation community.

Industrial and logistics has seen record rental growth and remains the only mainstream sector to experience yield compression in the last six months both in the UK and across Europe. Investors in listed companies have watched as private equity has stepped up investment in this sector and acquired businesses which we hoped would be listed such as Blackstone's sale of Logicor (€12.2bn) to China Investment Corporation. The sale by Brookfield of IDI Gazeley's £1.5bn pan European logistics platform is expected to provide further evidence of yield compression in this sector.

Likewise listed companies selling portfolios (and returning capital) such as Hansteen's European portfolio sold to Blackstone / M7 provides valuable evidence of yield tightening in non-prime industrial space.

Alternative asset classes such as self-storage, hotels and student accommodation have all seen healthy transaction volumes. There was £1.9bn of UK student accommodation traded in the first half of the year, ahead of the £1.7bn traded in H1 2016 and expectations are for 2017 to set a record of over £5bn. Again investors clearly see this sector as a growth market and are less concerned about the short term political risk which regularly surfaces around future overseas student numbers. In fact non-EU overseas student figures have continued to rise, due in part, we surmise, a reluctance to study in the United States.

Investment markets across Continental Europe also remain buoyant with both domestic and international capital attracted to all submarkets experiencing rental growth. Even shopping centres – with the most muted growth rates – continue to attract investment. Top of investors' shopping lists is prime offices in capital/dominant cities, industrial and logistics in both Western and Southern Europe as well as the Nordics. However it is important to emphasise that investors are all too aware of the risks to the sustainability of economic recovery and we see the focus on primary assets reflecting these concerns.

Offices

The Central London office leasing market remains subdued, particularly when compared to 2015. An ongoing theme is the increasing proportion of take-up coming from the loosely described 'creative' industries, also identified as the Tech and Media (T&M) sector. Even in the City of London submarket, 21% of this year's take up (according to Savills data) was T&M with Banking at 15% and Professional Services at 14%. The other growing sector has been Serviced Office Providers which is 7% year to date. Whilst overall take up is expected to exceed last year's total of 5.8m ft the increase in supply has pushed vacancy to 5.8% (from 5.2%). Rents have fallen modestly (<5%) and incentives increased back towards 12 months for every 5 years of lease commitment. The West End submarket has remained more robust, partly through lack of new supply and vacancy still less than 4%. We have seen little weakness in rents and good ongoing demand for larger (+10,000 ft) floor plates which remain rare with both Landsec and British Land securing more tenants in Victoria and Paddington respectively.

Outside of London and the South East, demand has have been more robust, in that the pace of demand hasn't materially deteriorated when compared with the previous year. Savills estimates based on the year to September is that regional UK markets will see take up of 9.8m sq ft, a 4% increase on 2016. There has been no material change in the speed of pipeline delivery and collectively availability still remains below two times the average yearly take up, a generally accepted metric which denotes ongoing supply constraints. The fund's regional exposure remains focused on the South East and here supply has increased particularly in the Western Corridor (M40, M4, M3) but this just returns the sub-market to its longer run average. Prime rents have continued to grow, albeit more modestly, averaging 3.7% over the last year (JLL data). The fastest rental growth has been seen in less fashionable markets such as Croydon, Brighton and Basingstoke.

Amongst both the dominant and capital cities of Europe, London is now the outlier with a weakening outlook for returns. We are seeing rental growth and improving demand in every other large city across Western and Southern Europe. In the 2017 Annual Report, I gave a large number of statistics particularly on the improving Paris office market driven by growth in the French economy and improving sentiment following the Macron Presidential win. However the fastest growth remains in the core and Western markets (including La Defence) whilst many peripheral markets still have vacancy which is too high to engineer growth.

The cities with the fastest rental growth are in Spain, Germany and Sweden. Madrid has seen growth of over 12% (CBRE data) over the last two years and notwithstanding the current political turmoil in Catalonia we expect take up to continue and rental growth to filter out from the core in both Madrid and

Barcelona. Stockholm rents continue to confound the sceptics with little new supply resulting in strong rental growth. The Riksbank are remaining dovish in an effort to keep their currency competitive and property yields continue to look very attractive in this environment. In Germany, all the big six cities continue to have attractive supply/demand characteristics. Berlin shines the brightest with Colliers reporting 5.7% rental growth in the first half of 2017. Exposure to German offices remains difficult due to a lack of listed companies in Germany focused on commercial, as opposed to residential property.

Retail
Barclaycard continue to publish their spending data across 34 retailer categories and they estimate that their debit and credit cards account for c20% of all UK card transactions and that cards are now used in approximately 80% of all spend. This data is therefore an excellent source of retail detail. The growth rate of online sales – as measured by them – continues unabated at about 15% per annum. Online sales in the UK reached 28.4% of all non-cash spending (Barclaycard analysis) in September 2017. When Barclaycard first published this data series in September 2011 the equivalent figure was 18%. The UK continues to have the highest online penetration globally and the ONS statistic for online sales as a % of all sales (cash and card payments) stands at 16.4%. Within Continental Europe, Norway (11.5%), Finland (10.8%) and Germany (9.4%) are the highest. The latter is interesting because German consumers have traditionally had a higher propensity to save than any other European consumer. None of this is good news for retail landlords who continue to battle with this enormous structural shift in purchasing behaviour.

However, shopping via physical stores still accounts for the vast majority of retail sales, particularly in many Continental countries and where there has been strong job and wage growth we have seen the commensurate increase in retail sales and this has resulted in rental growth in both shopping centres and on the high street. This has been the case – to varying degrees – in Spain, France and Germany over the last year.

Given the rate of online penetration and the relative weakness of the UK economy compared to our European neighbours, it is no surprise that UK retail has been the poorest performing sector across European markets so far this year.

Distribution and Industrial
Once again, London Industrial (as classified by the Investment Property Databank) has produced the fastest rental growth rate of any UK sector (3.3%). The market continues to experience strong demand coupled with a lack of supply. This supply constraint is also being observed across the country and rents are rising in the majority of regions. The greatest demand and fastest growth remains edge of town and suburban markets where the evolution in logistics networks requires much more ‘last mile’ distribution in densely populated areas. London is a hotspot and Colliers have recorded rental growth of 5.5% over the six months to June 2017.

The picture across Europe remains much the same with suburban (<100,000ft) outpacing the rate of rental growth in larger ‘big box’ formats

(>250,000 ft) where supply is often tenant led 'build to suit rather than speculative development. Build to suit results in slower growth as the tenant has a strong negotiating position as they are removing the leasing risk from the development process.

According to Colliers data, rental growth exceeded 6% in the first six months of the year in Dublin, Bristol, Gothenburg, Stockholm and Budapest. The top performer was Bratislava (17%) and other Central European hubs are enjoying growth as the wave of supply is absorbed rapidly. Even in Romania, a traditionally oversupplied market, vacancy is down to 2% in Bucharest.

Over the next year the fastest rates of growth are expected to be the Nordics, Iberia, Southern Germany and again the UK. The latter might surprise investors given the economic outlook but we sense that the immense structural changes in industrial and distribution demand are outweighing the immediate short term impact of slowing economic growth. However, part of the anticipation of renewed growth is driven by the expectation of a slowdown in speculative development as developers temporarily pause to assess the impact of the Brexit slowdown. Colliers expect just 3.5m sq ft of speculative completions this year, a 60% decline on 2016. This slowdown in supply will see vacancy rates driven down further from their already low (sub 4%) levels.

Amazon remains a huge driver of demand across Europe. After accounting for 26% of total take up last year in the UK we understand that their global run rate is currently 1.2m sq ft per month and they anticipate this rate continuing for several years. They have recently completed a 650,000 sq ft unit at Barcelona's airport and are currently building Italy's largest multi-level logistics facility at Fiumicino, Rome's main airport.

Residential

In the UK, our residential exposure continues to be focused on the private rented sector (PRS) and ongoing avoidance of prime Central London where values continue to fall. The drivers of this weakness continue to be the reasons outlined in the Annual Report namely changes in both stamp duty and the tax regime for 'buy to let' coupled with (not unsurprisingly) a reduction in demand from European nationals. Elsewhere across the UK, house price growth is moderating as wage inflation weakens and the expectation of increases in the base rate weigh on potential buyers. The extension and enhancement of 'Help to Buy' will enable housebuilders to maintain margin and continue to deliver the supply of new homes which is a crucial part of government policy but this tool of government intervention remains an inadequate response given the amount of demand. With not enough homes being built tenant demand in the rented sector remains strong, hence our investment in the IPO of PRS REIT, the first private rented residential REIT which focuses on single family housing as opposed to flats. We also continue to hold Telford Homes, who focus on building in the Greater London area. Two aspects attract us, firstly their excellent track record with an average apartment price of less than £550,000 (below the 'Help to Buy' threshold) but also their recent strategic move into the PRS. They have formed joint ventures with several funding partners and this is clearly a growing part of the market.

Elsewhere in Europe where the private rented sector is very much a core part of the residential market we have seen strong valuation growth. This has been the case in Germany and in particular the Berlin market where the bi-annual rent table (the government fixed rent level) rose on average 9%. There is real wage inflation in Germany and we remain confident that tenants can absorb the average increases of c3%.

In Spain and Sweden prices have continued to grow strongly. The Riksbank have imposed various macro-prudential restrictions on mortgage availability and levels but this has had only a modest effect on demand with house prices up 7.9% year on year across Sweden.

Debt and Equity Capital Markets
It may come as a surprise that the UK has seen over £2bn of capital raised for a broad range of real estate funds and REITs over the last 12 months. Continental Europe has seen virtually no equity issuance with the exception of Gecina's €1bn raise to complete the purchase of Eurosic and create the largest Paris office player. However there has been ongoing debt management with multiple examples of listed companies continuing to access long term debt through bond markets with very low coupons. In July, Grand City Properties, a German residential owner raised €600m 9 year senior at 1.375% and Gecina also raised $500m of similar duration at the same coupon.

The capital raising in the UK has been split into two distinct groups, the majority has been through IPOs but with secondary raises from four existing businesses, Tritax Bigbox, NewRiver REIT, Assura and Empiric Student Property. The latter raised £135m in July at 109p per share only to have an effective profit warning with its interim results in September. We are keen on the student accommodation sector but hold only Unite which has been a solid performer over the period.

In the UK, alongside the IPO of PRS REIT, the residential sector saw a raft of new businesses focused on government backed social housing as opposed to the private sector. Civitas which raised £350m in November 2016 has just announced plans for a further £250m 'C' share issue whilst Triple Point Social Housing raised £200m in August this year.

We were instrumental in the support of Supermarket Income REIT which raised £100m in July. They have successfully completed the first three supermarket acquisitions which were flagged ahead of the listing. They have completed their debt facility negotiations and we look forward to supporting further acquisitions in due course.

Property Shares
As covered in the introduction, the period was dominated by the outperformance of Continental European stocks ahead of the UK companies. This relative outperformance, in local currency, manifested itself from the middle of May with the gap widening as the ramifications of the Conservatives' weak majority became apparent. Business and commerce crave stability from their elected government and that is currently just not the case.

However, whilst the headline gap between European and UK property stocks was a stark 5.7%, collectively the weakest performance from the UK stocks was concentrated amongst the largest companies with four out of five underperforming markedly. Given that the two submarkets investors were least enthused about were prime retail and Central London offices it won't be a surprise that Intu (-14.6%), Landsec (-6.2%), Hammerson (-4.2%) and British Land (-0.1%) all underperformed the UK component of the benchmark which rose 2.4%. The top performer amongst the large caps was Segro which returned an astonishing 18.6% as investors sought exposure to logistics and industrial across both the UK and Europe. This theme continues all over Europe and alongside Segro, strong performance came from Hansteen (+20.9% total return) who sold their European assets to Blackstone. Argan, our French logistics developer and owner was the top performing stock returning 31% whilst WDP, the larger Belgium based developer returned a very respectable 14.7%. Encouragingly investors remain discerning and externally managed structures which have aggressively raised capital and risk a cash drag whilst they seek investment opportunities have seen their share prices stagnate. Tritax Bigbox, the UK's only 100% logistics owner, returned just 1.3% in the period.

Central London offices remains a key submarket and like all large markets elements of it travel at different speeds. Whilst investor sentiment, quite rightly in our view, remains weak towards the growth prospects of City of London rents we have been pleasantly encouraged by the leasing success that both Derwent London and Great Portland have had since the Referendum. Tech, Media and other 'creative' industries continue to expand in London albeit with more caution and more choice. Derwent London had a total return of 3.1% in the half year, reflecting a realisation amongst some investors that the message isn't solely about banking jobs fleeing to Frankfurt. Our largest London exposure – in smaller names – is CLS Holdings which has 40% of its assets in central and suburban London. It returned 16.4% in the period having completed the sale of its Vauxhall development site and reinvested the proceeds in German offices and further office acquisitions around the M25.

We have also seen a similar dispersion of returns between low yielding prime retail owners (Hammerson and Intu) and higher yielding, more active management driven convenience shopping centre owners such as NewRiver REIT and Capital & Regional who both returned over 4.5% in the six months. This feature of outperformance by the higher yielding companies owning higher yielding assets has replicated itself in Continental Europe with both Unibail and Klepierre having negative total returns of –3.9% and -4.1% respectively whilst Mercialys was flat (+0.1%) over the six months.

German residential businesses returned to the top of the performance table with the largest company Vonovia returning 12.5% and the Berlin focused Deutsche Wohnen 18.8%. Berlin continues to catch investors' imagination and the smaller names ADO and Phoenix Spree returned 26% and 42.7% although the latter has a currency tailwind as its shares trade in GBP.

Swedish property companies were weak performers at the start of the year as a potential change in the treatment of deferred capital gains and transfer taxes was being considered by the tax authorities. By April it was understood that any paper which was going before the Swedish Parliament on the issue had been deferred. The relief rally from that news and the ongoing strength of the Swedish economy continues to propel rental growth in many parts of the Swedish real estate market but in particularly Stockholm offices (Fabege 17.2%), Malmo and Gothenburg offices (Wihlborgs 21.1%) and residential (D Carnegie 10.3%, Wallenstam 13.5%).

Southern Europe enjoyed strong returns as investors focused on employment growth and a broadening economic recovery in both Spain and Italy. Expectation of rental growth amidst renewed office take up has fuelled demand for Madrid, Barcelona and Milan offices with Beni Stabili, the Milan focused office play returning 31.8%. Spain has clearly entered more troubling times and prices have fallen in October but the six months under review saw the group perform very strongly across all submarkets.

Investment Activity

Turnover (purchases and sales divided by two) totalled £138.8m equating to 11.9% of the average assets over the period. This compares to £149.3m in the same period last year which equated to 13.4% of average assets. Portfolio turnover has therefore reduced when compared to the prior first half but that period did straddle the UK Referendum where we saw significant portfolio rotation both before and after the vote.

The fund's overall geographical positioning between the UK and Continental Europe did not change markedly over the period with UK equities being 30% of net assets. At the end of period, the gearing was 13.6% which included around 8.0% of physical property and therefore the geared exposure to equities was modest.

Whilst we remained cautious about the shorter term prospects for rental growth recovery in the Central London office markets, we also felt that much of the expected correction in values was priced into the specialist names such as Derwent London and Great Portland. Having markedly sold down our London exposure both before and after the Referendum there was no need to continue to do so at these discounted prices. However, in the case of prime retail, we felt that there was further downside through our expectation of ongoing deterioration in rental growth prospects through the relentless grind of online sales capturing market share. We have been underweight for several years and in the period sold the modest remaining holdings in both Hammerson and Intu. We continue to hold two pure shopping centre stocks and both focus on higher yielding, convenience retail, Capital & Regional and NewRiver REIT. The expectation amongst some investors is that all retail is tarred equally with the 'impact of online' brush but that is not the case. NewRiver outperformed Intu by an astonishing 19.3% in the last six months. Their shares stand at a premium and the company has been able to raise accretive capital and make substantial acquisitions. Whilst we supported the latest raising we also took profits later in the period as the stock moved to a substantial premium. Sharp eyed investors will note that our overall retail exposure did not drop in the period because we invested £10m in the IPO

Supermarket Income REIT. Our view is that the major supermarkets will continue to rationalise their physical estates. Ultimately the core portfolios of superstores will prove to be a crucial part of the food retailing landscape with a dual role as both a retail destination but also as fulfilment centres for online sales.

With little net investment in traditional retail or Central London offices the largest additions to the UK portfolio was our investment in PRS REIT. This is the first Reit focused on the private rented sector and specialises in building houses rather than apartments, through joint ventures with two nationwide housebuilders. It is interesting to note that the Homes & Communities Agency invested £20m of the £250m raised at launch. Government clearly want these types of private initiatives to succeed.

Across Europe, we continued to focus our exposures in each sub-market. For example in Spain we added to Axia and Hispania whilst selling out of Colonial and Merlin. In the Netherlands we continued to sell down the retail exposure with the disposal of the remaining position in Wereldhave. In Germany, we took profits from our preferred Berlin name, ADO Properties but added to the largest German residential business Vonovia. In the German commercial property market we sold out of TLG following its expensive acquisition of WCM and bought into Aroundtown.

Our underweight to Swiss property companies expanded with further sales of Swiss Prime Site. Office and retail rental growth remains negative whilst in Sweden we added to a range of holdings as we see rental growth in office and industrial across Stockholm, Gothenburg and the Oresund region.

Ireland and in particular Dublin continues to be a likely beneficiary of the UK's departure from the European Union and we have added to our holding in Green Property.

Revenue and Revenue Outlook

The headlines are set out in the Chairman's Statement and there is not much to add. The Chairman has highlighted the result of the weakening of sterling on the revenue account. In the prior year, this only had a significant through the second half but this year it is likely to affect the full year, taking earnings up another step.

We also continue to highlight the ongoing impact of currency movements and, in particular, the effect of a reversal of the sterling weakness at some point in the future. We have no control over this and until the current political uncertainties settle, as stated in the Chairman's Report the Board are likely to take a cautious approach to dividend pay-out ratios.

The withholding tax reclaim referred to in the Chairman's Statement relates to a recovery of French withholding tax for the 2011 – 2012 period. There have been a number of territories where, based on court challenges, a possibility of additional retrospective withholding tax reclaims has emerged. The outcome of these has been very uncertain and the processing of claims through local tax advisers is quite costly so claims have been lodged where the likelihood of success has been most probable. Although, there has been no certainty at all regarding the outcome or timing, we have received successful reclaims from Sweden (in 2015) and now France. The funds received, including some substantial interest amounts, have far exceeded the cost of making the claims to date. There are further possible reclaims outstanding but these are of smaller amounts and we will continue to lodge claims where appropriate. Due to the highly uncertain nature of the success of any reclaims, these are not accounted for until receipt.

The tax charge for the first half has been lowered substantially due to the withholding tax receipt. The second half will not see the same benefit so the year end charge will be higher. In addition, the interest deductibility restrictions mentioned in the last report will also start to bite to a small extent in the second half.

Gearing and Debt
As set out in the Chairman's Report, gearing levels are largely unchanged from the year end position. Our loan facility with ING was renewed for a year in July and we are just beginning discussions with RBS about the renewal of the £40m facility in January. We are also talking to possible new providers. Alongside our fixed rate debt we seek to maintain relationships with a number of lenders to diversify our sources of debt. CFD's continue to provide attractively priced funding so are likely to remain a feature going forward, however we have to take into consideration other matters when looking at our CFD portfolio including the most cost effective way of maintaining our target currency exposure and the way in which CFD income is taxed.

Direct Physical Portfolio
The physical property portfolio produced a total return of 4.0% for the 6 months comprising a capital return of 2.3% and an income return of 1.7%.

At the Colonnades in Bayswater we won the appeal against Westminster Council's refusal to amalgamate two of the retail units and Babaji, the restaurant operator completed their lease post the half year. Of the two remaining vacant units we have one under offer. Now that the uncertainty around the restaurant has been removed, we feel confident of finding a quality operator for the final unit. During the six months we also completed a further 7 residential lease extensions generating £725,000 in lease premiums which we are pleased with given the weakening sentiment towards Central London residential markets.

The industrial component of the portfolio continues to perform well. We concluded 3 new lettings and one rent review. In Plymouth, settlement of the outstanding 2016 rent review secured a 14.4% increase on the previous rent, this was also 6.6% ahead of the valuer's expectations. The new lettings were completed in Wandsworth and Gloucester bringing both estates back to full occupancy. In Gloucester an existing tenant has paid £8 per sq. ft, a 30% increase on the previous rent, only 3 months after the unit came vacant. The two lettings at Wandsworth now bring all units in line with our planned September 2019 expiry date. The site's planning policy designation has been updated following the Council's employment land review. The new policy allows a broader mix of uses than the previous rigid industrial designation although with the proviso that the industrial floor space is increased by a minimum of 25%. We welcome this new policy and will work together with the Council to develop a scheme that further benefits the site and the locality.

Post the half year we have exchanged a contract to sell our office building in Wimbledon for £5.8million with completion set for November 2017. The property was valued at £4.3million in March 2017 and £5.3million in September 2017. The purchase cost in November 2014 was £3.7million. We had opened discussions for a potential redevelopment with Merton Council however progress was extremely slow. The opportunity arose to crystallise a profit in a market starved of redevelopment opportunities without having to commit further capital on a risky planning application.

Regulation
The Chairman mentioned forthcoming regulation which will take effect from the beginning of 2018. The investment management industry has been wrestling with the implementation of MiFID II for most of this year. The impact is far reaching and the trading and reporting requirements involve substantial system enhancements to collect the data required. In addition new arrangements are being negotiated with all our brokers around their research provision as trading and research costs are unbundled. The change across the industry is likely to impact the quality and quantity of research available to market participants and which will only become apparent over the course of 2018.

In addition PRIIPs (Package Retail and Insurance-based Investment Products) regulation takes effect on 1 January 2018. Investment Trusts are in scope and will have to provide basic product information via the introduction of a Key Information Document. This is a clearly worded three-page document providing a simple overview of the product including a description of the product, cost, risk reward profile and possible performance scenarios. The calculations will be carried out by third party providers specialising in providing this information. The most important thing to note is that the calculations use statistical and historical data and allow no judgemental input at all, as a result they do not reflect the Outlook set out in the Company's reports and do not reflect the Manager's view in any way whatsoever.

Outlook
Back in May, I concluded my commentary with the expectation that the high income return from property would continue to attract investors and particularly so towards those sub-markets, across Europe, which were experiencing rental growth. Whilst those expectations have broadly been the case the relative performance between the most and least preferred sectors has been more dramatic than I envisaged. The result has been a polarisation with stock prices of those companies carrying expectations of low or negative growth standing at significant discounts to their assets values and in some cases, decade price lows whilst almost all stocks with a whiff of growth are at premiums and in many cases all time high prices.

The ECB announced in late October a well flagged reduction in the pace of bond buying marking the true 'beginning of the end' of quantitative easing and unorthodox monetary policy a decade after the beginning of the global financial crisis. As expected the Bank of England increased the base rate by 0.25% in early November but the Governor also signalled that further increases would be gradual and dependent on improving economic conditions. We remain concerned that the slowing of growth in the UK as companies defer decisions, due to Brexit uncertainties, will lead to the UK being amongst the weakest performing European nations in the coming year. Our exposure away from London and retail is likely to persist, as is our overweight to a range of alternatives. The outlying risk in the UK is that the current government suffers a vote of no-confidence over the handling of the Brexit negotiations. In that situation our exposure to student accommodation, residential, healthcare and long secure income would be a (relative) safe haven. This outcome is by no means our central case but investors should note that the Trust's sterling exposure is limited to c.30%.

Concerns around the political environment across Continental Europe have moved on from the national elections in the Netherlands, France and Germany and focused on Spain and to a lesser extent the right wing success in Austria. We have limited exposure to commercial property in Barcelona and the greater Catalonian region but the real risk is much broader than that and our experience is that such macro concerns can weigh heavily on market sentiment.

The brightest outcome for property is the successful absorption of a steepening and normalising yield curve. If economies are growing then rates must reflect that inflationary movement. The key is to ensure we are exposed – at the right price – to real estate which is enjoying rising rents and development gains alongside the inevitable rise in the cost of funding. Share prices have clearly responded both positively and negatively and we will need to be vigilant on adjusting exposures to both the over-sold as well as the over-bought.

Marcus Phayre-Mudge
Fund Manager
23 November 2017

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 30 September 2017

	(Unaudited) Half Year ended 30 September 2017			(Unaudited) Half year ended 30 September 2016			(Audited) Year ended 31 March 2017		
	Revenue Return £'000	**Capital Return £'000**	**Total £'000**	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Income									
Investment income	**26,008**	**–**	**26,008**	22,561	–	22,561	35,574	–	35,574
Other operating income	**460**	**–**	**460**	6	–	6	62	–	62
Gross rental income	**2,050**	**–**	**2,050**	1,897	–	1,897	3,781	–	3,781
Service charge income	**783**	**–**	**783**	681	–	681	1,549	–	1,549
Gains on investments held at fair value	**–**	**91,702**	**91,702**	–	86,104	86,104	–	52,693	52,693
Net movement on foreign exchange; investments and loan notes	**–**	**(3,512)**	**(3,512)**	–	(1,476)	(1,476)	–	(1,130)	(1,130)
Net movement on foreign exchange; cash and cash equivalents	**–**	**1,581**	**1,581**	–	4,386	4,386	–	2,450	2,450
Net returns on contracts for difference	**3,070**	**2,487**	**5,557**	2,835	2,373	5,208	4,457	(1,487)	2,970
Total income	**32,371**	**92,258**	**124,629**	27,980	91,387	119,367	45,423	52,526	97,949
Expenses									
Management fees (note 2)	**(682)**	**(2,045)**	**(2,727)**	(651)	(1,952)	(2,603)	(1,314)	(3,944)	(5,258)
Performance fee (note 2)	**–**	**(2,833)**	**(2,833)**	–	–	–	–	(1,148)	(1,148)
Direct property expenses, rent payable and service charge costs	**(1,108)**	**–**	**(1,108)**	(933)	–	(933)	(2,078)	–	(2,078)
Other administrative expenses	**(618)**	**(277)**	**(895)**	(594)	(257)	(851)	(1,213)	(546)	(1,759)
Total operating expenses	**(2,408)**	**(5,155)**	**(7,563)**	(2,178)	(2,209)	(4,387)	(4,605)	(5,638)	(10,243)
Operating profit	**29,963**	**87,103**	**117,066**	25,802	89,178	114,980	40,818	46,888	87,706
Finance costs	**(333)**	**(1,000)**	**(1,333)**	(313)	(941)	(1,254)	(621)	(1,842)	(2,463)
Profit from operations before tax	**29,630**	**86,103**	**115,733**	25,489	88,237	113,726	40,197	45,046	85,243
Taxation	**(1,786)**	**1,679**	**(107)**	(2,813)	1,524	(1,289)	(4,080)	1,822	(2,258)
Total comprehensive income	**27,844**	**87,782**	**115,626**	22,676	89,761	112,437	36,117	46,868	82,985
Earnings per Ordinary share (note 3)	**8.77p**	**27.66p**	**36.43p**	7.14p	28.27p	35.41p	11.38p	14.76p	26.14p

The total column of this statement represents the Group's Statement of Comprehensive Income, prepared in accordance with IFRS. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

All income is attributable to the shareholders of the parent company. There are no minority interests.

The final Ordinary dividend of 6.40p (2016: 5.20p) in respect of the year ended 31 March 2017 was declared on 25 May 2017 (2016: 25 May 2016) and was paid on 1 August 2017 (2016: 2 August 2016). This can be found in the Group Statement of Changes in Equity for the half year ended 30 September 2017.

The interim Ordinary dividend of 4.65p (2017: 4.10p) in respect of the year ended 31 March 2018 was declared on 23 November 2017 (2017: 24 November 2016) and will be paid on 2 January 2018 (2017: 3 January 2017).

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the half year ended 30 September 2017 (Unaudited)	**Share Capital Ordinary £'000**	**Share Premium Account £'000**	**Capital Redemption Reserve £'000**	**Retained Earnings Ordinary £'000**	**Total £'000**
At 31 March 2017	**79,338**	**43,162**	**43,971**	**951,953**	**1,118,424**
Total comprehensive income:					
Net profit for the half year	-	-	-	**115,626**	**115,626**
Dividends paid	-	-	-	**(20,310)**	**(20,310)**
At 30 September 2017	**79,338**	**43,162**	**43,971**	**1,047,269**	**1,213,740**

for the half year ended 30 September 2016 (Unaudited)	Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
At 31 March 2016	79,375	43,162	43,934	898,948	1,065,419
Total comprehensive income:					
Net profit for the half year	-	-	-	112,437	112,437
Dividends paid	-	-	-	(16,510)	(16,510)
At 30 September 2016	79,375	43,162	43,934	994,875	1,161,346

for the year ended 31 March 2017 (Audited)	Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
At 31 March 2016	79,375	43,162	43,934	898,948	1,065,419
Total comprehensive income:					
Net profit for the year	-	-	-	82,985	82,985
Shares repurchased	(37)	-	37	(459)	(459)
Dividends paid	-	-	-	(29,521)	(29,521)
At 31 March 2017	79,338	43,162	43,971	951,953	1,118,424

GROUP BALANCE SHEET
as at 30 September 2017

	30 September 2017 (Unaudited) £'000	30 September 2016 (Unaudited) £'000	31 March 2017 (Audited) £'000
Non-current assets			
Investments held at fair value	**1,258,673**	1,176,261	1,144,776
Deferred taxation asset	**243**	243	243
	1,258,916	1,176,504	1,145,019
Current assets			
Debtors	**33,347**	33,222	38,809
Cash and cash equivalents	**14,427**	16,519	6,445
	47,774	49,741	45,254
Current liabilities	**(33,893)**	(6,643)	(14,081)
Net current assets	**13,881**	43,098	31,173
Total assets less current liabilities	**1,272,797**	1,219,602	1,176,192
Non-current liabilities	**(59,057)**	(58,256)	(57,768)
Net assets	**1,213,740**	1,161,346	1,118,424
Capital and reserves			
Called up share capital	**79,338**	79,375	79,338
Share premium account	**43,162**	43,162	43,162
Capital redemption reserve	**43,971**	43,934	43,971
Retained earnings	**1,047,269**	994,875	951,953
Equity shareholders' funds	**1,213,740**	1,161,346	1,118,424
Net asset value per :			
Ordinary share	**382.46p**	365.78p	352.42p

GROUP CASH FLOW STATEMENT

For the half year ended 30 September 2017

	Half year ended 30 September 2017 (Unaudited)	Half year ended 30 September 2016 (Unaudited)	Year ended 31 March 2017 (Audited)
	£'000	£'000	£'000
Reconciliation of profit from operations before tax to net cash inflow from operating activities			
Profit from operations before tax	**115,733**	113,726	85,243
Finance costs	**1,333**	1,254	2,463
Gains on investments and derivatives held at fair value through profit or loss	**(94,189)**	(88,477)	(51,206)
Net movement on foreign exchange; cash and cash equivalents and loan notes	**(292)**	(774)	669
Decrease/(increase) in accrued income	**1,684**	433	(624)
Increase in other debtors	**(670)**	(3,257)	(1,595)
Increase/(decrease) in other creditors	**1,188**	(3,467)	(1,575)
Net (purchases)/sales of investments	**(14,793)**	11,464	4,606
Decrease/(increase) in sales settlement debtor	**3,970**	(912)	(5,591)
Decrease in purchase settlement creditor	**(522)**	(5,375)	(3,216)
Scrip dividends included in investment income	**(3,977)**	(626)	(1,450)
Scrip dividends included in net returns on contracts for difference	**(150)**	(330)	-
Net cash inflow from operating activities before interest and taxation	**9,315**	23,659	27,724
Interest paid	**(1,333)**	(1,254)	(2,437)
Taxation paid	**(271)**	(1,516)	(4,066)
Net cash inflow from operating activities	**7,711**	20,889	21,221
Financing activities			
Equity dividends paid	**(20,310)**	(16,510)	(29,521)
Drawdown/(repayment) of loans	**19,000**	(15,000)	(10,000)
Repurchase of shares	-	-	(459)
Net cash used in financing activities	**(1,310)**	(31,510)	(39,980)
Increase/(decrease) in cash	**6,401**	(10,621)	(18,759)
Cash and cash equivalents at start of the period	**6,445**	22,754	22,754
Net movement on foreign exchange; cash and cash equivalents	**1,581**	4,386	2,450
Cash and cash equivalents at end of the period	**14,427**	16,519	6,445
Note			
Dividends received	**29,262**	24,808	35,834
Interest received	**460**	40	41

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of accounting

The accounting policies applied in these interim financial statements are consistent with those applied in the Company's most recent annual financial statements. The financial statements have been prepared on a going concern basis and in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

The financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

In accordance with IFRS 10 the Company has been designated as an investment entity on the basis that:

- It obtains funds from investors and provides those investors with investment management services;
- It commits to its investors that its business purpose is to invest solely for returns from capital appreciation and investment income; and
- It measures and evaluates performance of substantially all of its investments on a fair value basis.

Each of the subsidiaries of the company was established for the sole purpose of operating or supporting the investment operations of the company (including raising additional financing), and is not itself an investment entity. IFRS 10 sets out that in the case of controlled entities that support the investment activity of the investment entity, those entities should be consolidated rather than presented as investments at fair value. Accordingly the Company has consolidated the results and financial positions of those subsidiaries.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising therefrom, are eliminated. This is consistent with the presentation in previous periods.

All the subsidiaries of the Company have been consolidated in these financial statements.

2 Management fees

	(Unaudited) Half year ended 30 September 2017			(Unaudited) Half year ended 30 September 2016			(Audited) Year ended 31 March 2017		
	Revenue Return £'000	**Capital Return £'000**	**Total £'000**	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Management fee	**682**	**2,045**	**2,727**	651	1,952	2,603	1,314	3,944	5,258
Performance fee	-	**2,833**	**2,833**	-	-	-	-	1,148	1,148
	682	**4,878**	**5,560**	651	1,952	2,603	1,314	5,092	6,406

A provision has been made for a performance fee based on the net assets at 30 September 2017. No payment is due until the full year performance fee is calculated at 31 March 2018.

3 Earnings per Ordinary share

The earnings per Ordinary share can be analysed between revenue and capital, as below.

	Half year ended 30 September 2017 (Unaudited) £'000	Half year ended 30 September 2016 (Unaudited) £'000	Year ended 31 March 2017 (Audited) £'000
Net revenue profit	**27,844**	22,676	36,117
Net capital profit	**87,782**	89,761	46,868

Net total profit	**115,626**	112,437	82,985
Weighted average number of Ordinary shares in issue during the period	**317,350,980**	317,500,980	317,435,090
	Pence	pence	pence
Revenue earnings per Ordinary share	**8.77**	7.14	11.38
Capital earnings per Ordinary share	**27.66**	28.27	14.76
Earnings per Ordinary share	**36.43**	35.41	26.14

4 Changes in share capital

During the half year and since 30 September 2017 no Ordinary shares have been purchased and cancelled.

As at 30 September 2017 there were 317,350,980 Ordinary shares (30 September 2016: 317,500,980; 31 March 2017: 317,350,980 Ordinary shares) of 25p in issue.

5 Going concern

The directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements. The assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to meet its liabilities as and when they fall due and continue in operational existence for the foreseeable future.

6 Fair value of financial assets and financial liabilities

Financial assets and financial liabilities are carried in the Balance Sheet either at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank).

Fair value hierarchy disclosures

The table below sets out fair value measurements using IFRS 13 fair value hierarchy.

Financial assets at fair value through profit and loss

	Level 1	**Level 2**	**Level 3**	**Total**
At 30 September 2017	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	**1,159,180**	**-**	**2**	**1,159,182**
Investment properties	**-**	**-**	**99,491**	**99,491**
Contracts for difference	**-**	**1,369**	**-**	**1,369**
	1,159,180	**1,369**	**99,493**	**1,260,042**

At 30 September the foreign exchange forward contracts were valued at a loss of £303,000 and have been categorised as level 2.

	Level 1	Level 2	Level 3	Total
At 30 September 2016	£'000	£'000	£'000	£'000
Equity investments	1,079,603	-	2	1,079,605
Investment properties	-	-	96,656	96,656
Contracts for difference	-	597	-	597
	1,079,603	597	96,658	1,176,858

At 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	1,047,470	-	2	1,047,472
Investment properties	-	-	97,304	97,304
Contracts for difference	-	2,146	-	2,146
	1,047,470	2,146	97,306	1,146,922

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in an active market for identical assets.
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices within level 1.
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

Contracts for Difference are synthetic equities and are valued by reference to the investments' underlying market values.

Valuations of Investment Properties – Level 3
The Group carries its investment properties at fair value in accordance with IFRS 13, revalued twice a year, with changes in fair values being recognised in the Group Statement of Comprehensive Income. The Group engaged Knight Frank LLP as independent valuation specialists to determine fair value as at 30 September 2017.

Determination of the fair value of investment properties has been prepared on the basis defined by the RICS Valuation Professional Standards, Global & UK Edition, January 2014 (The Red Book) as follows:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The valuation takes into account future cash flow from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These assumptions are based on local market conditions existing at the balance sheet date.

In arriving at their estimates of fair values as at 30 September 2017, the valuers have used their market knowledge and professional judgement and have not only relied solely on historical transactional comparables.

Reconciliation of movements in Financial assets categorised as level 3

At 30 September 2017	**31 March 2017 £'000**	**Purchases £'000**	**Sales £'000**	**Appreciation/ (Depreciation) £'000**	**30 September 2017 £'000**
Unlisted equity investments	2	-	-	-	**2**
Investment properties					
- Mixed use	53,087	115	(727)	(361)	**52,114**
- Industrial	31,269	45	-	2,127	**33,441**
- Offices	12,948	500	-	488	**13,936**
	97,304	660	(727)	2,254	**99,491**
	97,306	660	(727)	2,254	**99,493**

Transfers between hierarchy levels
There were no transfers between any levels during the period.

Sensitivity information
The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of investment properties are:

- Estimated rental value: £4 – £50 per sq ft
- Capitalisation rates: 3.50% - 9.75%

Significant increases (decreases) in estimated rental value and rent growth in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in capitalisation rates in isolation would result in a significantly lower (higher) fair value measurement.

Gains on investments held at fair value

	Half year ended 30 September 2017 (Unaudited) £'000	Half year ended 30 September 2016 (Unaudited) £'000	Year ended 31 March 2017 (Audited) £'000
Gains on sale of investments	**30,516**	44,510	81,756
Movement in investment holding gains	**61,186**	41,594	(29,063)
Gains on investments held at fair value	**91,702**	86,104	52,693

Loan Notes
On 10 February 2016, the Company issued 1.92% Unsecured Euro 50,000,000 Loan Notes and 3.59% Unsecured GBP 15,000,000 Loan Notes which are due to be redeemed at par on the 10 February 2026 and 10 February 2031 respectively.

The fair value of the 1.92% Euro Loan Notes at 30 September 2017 was £44,195,000 (30 September 2016: £43,472,000) and (31 March 2017: £42,918,000).

The fair value of the 3.59% GBP Loan Notes at 30 September 2017 was £15,309,000 (30 September 2016: £15,806,000) and (31 March 2017: £15,511,000).

Using the IFRS 13 fair value hierarchy the Loan Notes are deemed to be categorised within Level 2.

The loan notes agreement requires compliance with a set of financial covenants, including:

- Total Borrowings shall not exceed 33% of Adjusted Net Asset Value;
- the Adjusted Total Assets shall at all times be equivalent to a minimum of 300% of Total Borrowings; and
- the Adjusted NAV shall not be less than £260,000,000.

The Company and Group complied with the terms of the loan notes agreement throughout the year.

Multi-currency revolving loan facilities
The Group also has unsecured, multi-currency, revolving short-term loan facilities totalling £70,000,000 (30 September 2016: £80,000,000) and (31 March 2017: £70,000,000). At 30 September 2017, £24,000,000 was drawn on these facilities (30 September 2016: £nil) and (31 March 2017: £5,000,000). The fair value is considered to approximate the carrying value and the interest is paid at a margin over LIBOR.

7 Related Party Transactions

There have been no material related party transactions during the period and no changes to related parties.

During the period Thames River Capital charged management fees as detailed in Note 2.

The remuneration of the directors has been determined in accordance with rates outlined in the Director's Remuneration Report in the Annual Financial Statements.

8 Comparative information

The financial information contained in this Half-Yearly Financial Report does not constitute statutory accounts as defined in section 435(1) of the Companies Act 2006. The financial information for the half year periods ended 30 September 2017 and 30 September 2016 has not been audited or reviewed by the Group auditors. The figures and financial information for the year ended 31 March 2017 are an extract from the latest published accounts and do not constitute statutory accounts for that year.

Those accounts have been delivered to the Registrar of Companies and include the report of the auditors, which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

Disclaimer

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