

RNS Final Results



Full Year Results For Year Ended 30 June 2021

SUPERMARKET INCOME REIT PLC

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SUPERMARKET INCOME REIT PLC

(the "Group" or the "Company")

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RESULTS FOR THE YEAR ENDED 30 JUNE 2021

Supermarket Income REIT plc (LSE: SUPR), the UK supermarket real estate investment trust providing secure, inflation-protected, long income from grocery property in the UK, is today reporting its audited consolidated results for the Group for the year ended 30 June 2021 (the "Year").

FINANCIAL HIGHLIGHTS

	12 months to 30-June-21	12 months to 30-June-20	Change in Period
Annualised passing rent	£57.8m	£28.7m	+101%
EPRA Earnings	£36.8m	£16.8m	+119%
Profit before tax	£82.0m	£32.8m	+150%
Dividend paid per share	5.9 pence	5.8 pence	+2%
IFRS EPS	12.6 pence	9.8 pence	+29%
EPRA EPS	5.6 pence	5.0 pence	+12%
EPRA dividend cover	1.04x	0.84x	n/a
	30-June-21	30-June-20	Change in Period
IFRS net assets	£871m	£477m	+83%
EPRA NTA	£872m	£479m	+82%
EPRA NTA per share	108 pence	101 pence	+7%
Net Loan to value (Direct Portfolio)	34.0%	19.7%	+73%
Portfolio net initial yield	4.7%	5.0%	-6%

- 11% Total Shareholder Return for the year and 40% since initial listing in July 2017^[1]
- Direct Portfolio independently valued at £1.15 billion, an increase of £609.0 million following valuation growth of £67.8 million and new acquisitions of £541.2 million (excluding acquisition costs):
 - 8.5% valuation growth on a like-for-like basis
 - 4.1% valuation growth on acquisitions in the year
 - Direct Portfolio net initial yield ("NIY") of 4.7%
 - Direct Portfolio weighted unexpired lease term ("WAULT") of 15 years

BUSINESS HIGHLIGHTS

- £353 million of equity raised via two upsized and over-subscribed issuances of New Ordinary Shares:
 - £200 million Placing and Offer for Subscription in September 2020
 - £153 million Placing in March 2021
- Acquisition of 20 complementary supermarket assets for an aggregate purchase price of £541.2 million at a blended net initial yield of 5.0%

- Acquisition of a further 25.5% stake in the Sainsbury's Reversion Portfolio through the Company's joint venture with British Airways Pension Trustees Limited ("BAPTL"). The cost of the Group's additional investment was £57.5 million (excluding acquisition costs)
- Direct Portfolio net loan to value ("LTV") ratio of 34% as at 30 June 2021, with a weighted current cost of debt of 1.9%
- EPRA NTA per ordinary share of 108 pence as at 30 June 2021
- 100% of grocery rent collected with 99.5% of total rent received

POST BALANCE SHEET EVENTS

- Purchase of 5 supermarket sites for £94.6 million (excluding acquisition costs) providing a blended NIY of 4.8%
- £91.3 million of new debt financing at a weighted average cost of 1.55% and a weighted average term of 5 years
- £128 million of remaining debt capacity through committed and uncommitted accordion options on debt facilities
- FY 2022 dividend target has increased by 1.4% to 5.94 pence per share, in line with the average increase in passing rents for the year

Nick Hewson, Chairman of Supermarket Income REIT plc, commented:

"I am very pleased to be able to report another solid set of results by the Group. During the year, our Direct Portfolio has benefited from an 8.5% like-for-like increase in valuation, delivering an EPRA NTA of 108 pence per share as at 30 June 2021.

Since our initial listing in 2017 we have delivered a 40% Total Shareholder Return and continue to offer our investors stable, long-term, inflation-protected income that is backed by one of the most compelling real estate asset classes in the UK investment market."

The Company will be holding a presentation for analysts and investors at 08.30am today. To join the meeting please register using the following link:

<https://webcasting.brrmedia.co.uk/broadcast/612f8b9312f0cb436ea68c6b>

FOR FURTHER INFORMATION

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NOTES TO EDITORS:

Supermarket Income REIT plc (LSE: SUPR) is a real estate investment trust dedicated to investing in grocery properties which are an essential part of the UK's feed the nation infrastructure. The Company focuses on grocery stores which are omnichannel, fulfilling online and in-person sales. All of the Company's 61 supermarkets⁽¹⁾ are let to leading UK supermarket operators, diversified by both tenant and geography.

The Company provides investors with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term and targets a 7% to 10% p.a. total shareholder return over the medium term⁽²⁾. The Company has increased its dividend target in line with inflation each year.

The Company's ordinary shares were admitted to trading on the Main Market of the London Stock Exchange, Specialist Fund Segment, on 21 July 2017.

Atrato Capital Limited is the Company's Investment Adviser. Further information is available on the Company's website www.supermarketincomereit.com

(1) 35 directly owned supermarkets, plus 26 via joint venture

(2) There is no certainty that these illustrative projections will be achieved

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am very pleased to report to you another year of solid performance by the Group. During the financial year we generated a total return of 11% for our Shareholders and grew our portfolio of supermarket assets to nearly £1.3 billion. This performance is a consequence of both our high-quality property portfolio and the increasing strength of our investment market.

The financial year has been one of continued disruption caused by the Covid-19 pandemic during which supermarkets have continued to show their agility in responding to the increased level of demand and demonstrating their pivotal role as 'feed the nation' infrastructure. Omnichannel supermarkets have performed particularly strongly. Omnichannel supermarkets now fulfil 80% of all online grocery orders and have clearly emerged as the winning model for last mile grocery fulfilment.

To understand the trend in grocery sector growth it is important to compare 2021 sales to 2019 which was the last full pre-Covid year. In 2020, prolonged lockdowns caused a one-off temporary boost to sales making it a poor comparator

for underlying trends. To illustrate this, in the 12-week period up to 12 July 2021, UK grocery sales fell by 5% vs the same period in 2020. However, when compared to the same 12-week period in 2019, 2021 sales were up £3 billion or 11% despite the broad re-opening of the economy. We believe that this shows that we are starting to see more persistent changes in consumer habits and the impact they have on the grocery sector.

Online grocery market share has grown to 13% of total UK grocery sales. This is well above 2019 levels and seems to be both resilient and consistent. This demonstrates that the step change in online utilisation has become ingrained in consumer behaviour.

We have seen growing investor interest in the grocery sector with private equity attracted by the strong cash flows and the property backing. 2021 may see over £14 billion invested into the sector with Asda and, most likely, Morrisons being taken into private ownership. We have also seen increased investment volumes into UK supermarket property with close to £2 billion invested in 2020 and already 2021 looks on track to exceed this.

This sector growth and record investment interest has resulted in supermarket property yields falling, reflecting our long-term investment thesis. Our Direct Portfolio of investment properties was independently valued on 30 June 2021 at £1,148 million reflecting 8.5% like-for-like growth in value during the year, and this value growth in the Direct Portfolio has been the main driver of the increase in the Group's EPRA NTA to 108 pence as at 30 June 2021 from 101 pence as at 30 June 2020.

Against this backdrop, during the financial year we closed two significantly over-subscribed equity placings raising £353 million in ordinary share capital. The proceeds of these placings together with drawings under our banking facilities have enabled us to enhance both the quality and geographic diversification of the Portfolio. We acquired 20 additional supermarkets totalling £514 million and in March invested £59 million (including acquisition costs) to jointly acquire a further 25.5% interest in the Sainsburys Reversion Portfolio with British Airways Pension Trustees Limited. Including our interest in the Sainsbury's Reversion Portfolio (see below), at the year end we had direct and indirect exposure to 56 UK supermarkets at a gross valuation of £1.4 billion (including the Group's 25.5% share of the Sainsbury's Reversion Portfolio valued at £932.5 million. In addition, post the balance sheet reporting date we acquired 5 stores investing a further £94.6 million (excluding acquisition costs).

Reflecting the growth in our total assets and our inflation-linked rental uplifts, our annualised passing rental income has grown to £57.8 million as at 30 June 2021 (2020: £28.7 million). During the year our EPRA earnings increased by 119% to £36.8 million from £16.8 million in the prior financial year, generating EPRA earnings per share for the year of 5.6 pence (2020: 5.0 pence). The strength and resilience of our tenant base is demonstrated by the Group's rent collection performance, with 100% of the grocery rent falling due for 2021 collected, which allows us to reaffirm our guidance on delivering long-term, inflation-linked, dividend progression.

During the year we have declared dividends totalling 5.9 pence per share, representing an increase of 2% on the prior year. We are increasing the quarterly dividend in line with the average annual inflation increases in our rents for the year. This will result in an annual dividend target of 5.94 pence per share for the financial year ending 30 June 2022. The first quarterly dividend at the increased level is expected to be declared in September 2021. Our stable, inflation-linked income stream has enabled us to increase our quarterly dividend in line with inflation every year now since our IPO in July 2017.

Our Investment Adviser ("Atrato"), has continued to invest in its own capabilities and to scale its resource in parallel to the growth of the Group. Atrato has made several senior appointments this year, adding breadth and depth of experience and enhancing its expertise in areas such as investor relations, asset management and most notably in renewable energy.

We recognise our obligation to continue to create long-term value for investors in a responsible and sustainable way and we acknowledge that as a business there is always more that we can do. We undertook a detailed review of our Environmental, Social and Governance ('ESG') strategy, with a specialist third party consultant, so as to identify ways to fully integrate environmental and sustainable initiatives into our investment and asset management strategies. More detail on this can be found on pages 28 to 36 of this announcement.

Outlook

The Group is now one of the UK's largest supermarket landlords which gives us considerable insight into the UK grocery market which, added to our strong relationships with both our tenants and other real estate investors, provides us with material advantage in our sector.

As the country emerges from the pandemic, forecasts are for a sustained period of economic growth and increased inflationary pressures. With the inflation-linked nature of our leases, combined with the financial and commercial strength of our tenants, we believe that the Group is well positioned to continue to provide investors with secure, long-dated inflation-linked income.

Whilst the investment market for supermarket real estate is becoming increasingly competitive, the Investment Adviser continues to be able to identify and acquire attractive and exciting investments for the Group. The Group feels well positioned for continued growth in the years ahead.

Nick Hewson

Chairman

22 September 2021

Q&A with Justin King CBE

Justin King is a senior adviser to Atrato Capital. Justin is recognised as one of the UK's most successful grocery sector leaders, having served as CEO of Sainsbury's for over a decade. Prior to that, he was part of the leadership team at Marks & Spencer and previously held senior roles at Asda. He is currently Non-Executive Director of Marks & Spencer, and a member of the Public Interest Body of PwC. He recently launched, and now chairs, the charity Made by Sport, which champions the power of sport to change young lives. Justin brings an unrivalled wealth of grocery sector experience and a deep understanding of grocery property strategy.

The pandemic has driven a large increase in UK grocery demand, do you think this represents a permanent or temporary shift for supermarket operators?

The popular view is that the pandemic's lasting impact will be the acceleration of pre-pandemic existing shopping trends, such as increased online shopping, and a belief that once the virus dampens down, if it ever truly does, that the elevation in total grocery sales will revert to pre-pandemic levels.

Whilst I agree with the first part of that, the latter fails to reflect the lasting effect on the grocery sector from the structural change in working habits.

Pre-pandemic, around 5% of workers spent their working time mainly at home, by spring 2020 that figure was 50% [2]. Home working has been unlocked by the pandemic and a growing body of evidence points to what post-pandemic working patterns look like. A recent ONS survey suggests that 85% of those working from home during the pandemic want to continue in the future. Whilst some employers may be less keen, the expectation is that up to two fifths of office working time will now be spent at home (two days a week) via a new hybrid office-home working environment, a big change from the previous norm.

And when you consider that working from home just two days a week can increase the average weekly shopping basket by 5% to 10% that's a big opportunity for the grocery sector. If we look past 2020 and examine the trading data from the 3 months to July 2021 vs 2019, shoppers spent £3 billion more on groceries despite lockdown measures being relaxed with pubs and restaurants reopening [3]. That's translating to quarterly like-for-like sales growth of +10% compared to 2019 levels [4].

Whilst the full extent of the pandemic's long-term impact remains hard to predict, we are starting to see a more permanent positive shift in grocery sales and I believe that's hugely positive for the outlook for the sector.

Given this step change in grocery demand and thinking about the growth in the online channel, do you see this generating any significant changes in the operating model of the grocers?

I have always believed you must think customer, not channel. In a post-pandemic era, the most profitable customer will require seamless integration between online and offline channels. The growing investment in the pursuit of omnichannel stores is a significant development within the industry and empowers the grocer to be truly blind to channel. The grocers can now start to be focused purely on the customer and agnostic to where the sale takes place - in store, online with delivery or click and collect.

We have seen a dramatic change in the online grocery landscape with a step change in demand that peaked at online representing 15% of grocery market share. Grocers have responded by increasing home delivery capacity by over 100% from 1.8 million deliveries per week to over 3.7 million deliveries per week [5].

This additional capacity has predominantly come from investment in store pick fulfilment, with operators capitalising on the symbiotic relationship between online and instore sales.

For the operator, the scale economies from a near doubling in online grocery penetration has halved delivery costs from omnichannel stores and improved picking productivity with store pick and pack rates per labour hour approaching equivalence to highly automated centralised fulfilment centres (CFC's). Omnichannel stores facilitate seamless integration across both online and offline sales channels.

For the customer, an omnichannel store carries a bigger and better range and the increased turnover from online leads to a much fresher product on the shelves. In-store customers also appreciate the additional staff members available on the shop floor and thus omnichannel stores tend to score higher on customer satisfaction surveys. Adding online fulfilment to a store can create a much better in-store experience for the customer and in time usually results in increased physical store sales.

This virtuous circle effect of an omnichannel supermarket is driving a global convergence on omnichannel being the optimal future model of grocery. It is notable that two of the major operators have now abandoned their CFCs in favour of increased omnichannel store pick. The combination of strong online coverage, extensive reach through an omnichannel store infrastructure and flexibility to seamlessly integrate between online and offline channels means the big four operators have the fundamentals in place that will provide the ultimate offering to customers and the formula to continue to dominate the UK grocery market for the foreseeable future.

Looking forward, putting automation into the store in the form of micro-fulfilment is likely to play a part in the future model too. Tesco is at the forefront of micro-fulfilment in the UK, rolling out Dematic's Technologies with its first centres in West Bromwich and Lakeside both producing impressive productivity numbers.

2021 looks set to be a record year for inward investment into both grocery operators and supermarket property. Does that surprise you?

Not at all. In the last three years we have seen growing investment volumes into UK supermarket property, with close to £2 billion invested in 2020. Already 2021 looks on target to hit that number. Investors looking for assets that offer consistent returns, underpinned by solid corporate covenants and low rent to turnover ratios have increasingly targeted the supermarket property sector. In the last 12 months we have seen average supermarket investment yields shift some 25 basis points tighter to around 4.5%-4.75%. Given the relative value of UK supermarket property I still think we will see yields go even tighter.

Having said that, not all supermarket property is equal and specialists, like the Atrato Capital team, are essential to ensure the right asset selection for the long term.

On the equity markets side, 2021 may well see £14 billion of net investment into the UK grocery sector with Morrisons and Asda changing ownership. Global private equity players have been attracted by the value opportunity in the UK grocery sector and clearly believe it is the right time in the cycle to make strategic investments in this space to capitalise on post-pandemic consumer changes and the growth in online.

Do you think the stock market values the big grocers correctly?

Since around 2016 the stock market sentiment towards the big four was one of potential decline due to emerging competitive headwinds and changes to consumer shopping habits. Those included the dual competitive threat from the German discounters and pure play online operators together with the balance sheet leverage hangover following the property expansion in the noughties. That negative sentiment weighed heavily on the share prices of the UK grocers which never really recovered.

Five years on, whilst the German discounters have had a noteworthy impact, Aldi and Lidl's combined market share of 14% is actually flattening out. Pure play online has failed to gain much of a foothold. Ocado is transitioning from pure play online grocer to technology supplier to multichannel operators and Amazon's purchase of Whole Foods was a clear acknowledgement that a successful online grocery business requires well located stores operating an omnichannel business model with deep supply chain knowledge. Omnichannel supermarket fulfilment has clearly emerged as the last mile grocery winner in responding to the step change in online demand caused by the pandemic.

Balance sheet leverage has fallen sharply across the sector, for example Sainsbury's debt is down 70% and they have a £750m pension fund surplus. Given the strong cash flow generation in the sector, the grocers are arguably under-gearred to the detriment of the share price.

It has taken Covid to highlight just how undervalued these businesses have been. Despite recent share price appreciations, I still believe that the UK grocery sector is one of the most undervalued in the world. It would appear that the global private equity community agrees with me.

Do you see any risk from two of the biggest UK grocers going into private equity hands?

There is always a risk when ownership and management teams change hands, but you need to consider the experience and motivation of the new owners when assessing that risk.

EG Group and TDR Capital's acquisition of Asda brings a depth of experience, particularly in convenience retail and brand partnerships and the continued involvement of Walmart is a positive factor. Whilst the potential new owners bidding on Morrisons bring a wealth of experience successfully investing in the grocery and retail industries.

Private equity acquisitions tend to mean a lot of additional leverage, around £4 billion for Asda and possibly similar levels for Morrisons. However, both businesses have healthy historical cash flow generation which could support greater leverage. Asda's new balance sheet has been structured with over £1 billion of available cash and liquid credit facilities with no material financial debt maturing before five years, which looks to allow further investment in the business.

I think what is more notable and encouraging is that to date none of the Asda supermarkets have been sold, unlike the distribution sheds, of which £1.8 billion were sold to Blackstone in very short order. The various bidders on Morrisons have also committed to retaining its high supermarket freehold ownership.

Clearly the new management teams for both firms get that there is still no greater asset than a large, grocery-led supermarket selling fresh food in the right location. Supermarkets generate significant cash flow and are the core mission critical infrastructure of the operator.

You recently launched, and now chair, the Made by Sport charity, which champions the power of sport to change young lives. What social impact do you hope this initiative will have?

Made by Sport is a charity that raises awareness of the power of sport to change lives and raises funds for organisations doing just that. We want to support the thousands of community sports organisations in the UK that don't just use sport as a way to engage young people, but also show how it can be of societal benefit to young people and their local communities.

Sport has the power to change lives. It can teach us skills that last a lifetime and - in a world where true grass roots sports are under increasing pressure, where it's easier to play on your phone than in a park and where joining gangs can be more glamorous than joining teams - we believe it can play a pivotal role in how young people develop. The four-year campaign will aim to raise £40 million in funds from a combination of corporate partnerships and public fundraising initiatives.

It is encouraging to also see Atrato supporting young people's development through the IntoUniversity partnership that aims to help disadvantaged young people gain a place within a higher education establishment. I truly believe that sport and education can deliver invaluable skills to young and disadvantaged people, broadening their future opportunities and delivering lasting benefits to them and their local communities.

KEY PERFORMANCE INDICATORS

KPI	Definition	Performance
1. Total Shareholder Return	Shareholder return is one of the Group's principal measures of performance. Total Shareholder Return ("TSR") is measured by reference to the growth in the Company's share price over a period, plus dividends.	11% for the year to 30 June 2021 (2020: 12%)
2. WAULT	WAULT measures the average unexpired lease term of the Direct Portfolio, weighted by the Direct Portfolio valuations.	15 year WAULT as at 30 June 2021 (2020: 17 years)
3. EPRA NTA per share	The value of our assets (based on an independent valuation) less the book value of our liabilities, attributable to Shareholders and calculated in accordance with EPRA guidelines. Following guideline updates that took effect on 1 January 2020, EPRA state three new measures of NAV to be used; of which the Group deem EPRA NTA as the most meaningful measure. See Note 26 for more information.	108 pence per share as at 30 June 2021 (2020: 101 pence per share)
4. Net Loan to Value	The proportion of our Direct Portfolio gross asset value that is funded by borrowings calculated as balance sheet borrowings less cash balances divided by total investment properties valuation.	34% as at 30 June 2021 (2020: 20%)

5. EPRA EPS	Earnings attributable to Shareholders adjusted for other earnings not supported by cash flows and calculated in accordance with EPRA guidelines.	5.6 pence per share for the year ended 30 June 2021 (2020: 5.0 pence per share)
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Our objective is to provide secure, inflation-protected, long income from grocery property in the UK. Set out below are the key performance indicators we use to track our progress.

EPRA PERFORMANCE INDICATORS

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

For a full reconciliation of all EPRA performance indicators, please see the Notes to EPRA measures within the unaudited supplementary section of the Annual Report.

Measure	Definition	Performance
1. EPRA Earnings per Share	A measure of EPS designed by EPRA to present underlying earnings from core operating activities.	5.6 pence per share for the year ended 30 June 2021 (2020: 5.0 pence per share)
2. EPRA Net Reinstatement Value (NRV) per share	An EPRA NAV per share metric which assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	118 pence per share as at 30 June 2021 (2020: 109 pence per share)
3. EPRA Net Tangible Assets (NTA) per share	An EPRA NAV per share metric which assumes entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	108 pence per share as at 30 June 2021 (2020: 101 pence per share)
4. EPRA Net Disposal Value (NDV) per share	An EPRA NAV per share metric which represents the Shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	107 pence per share as at 30 June 2021 (2020: 100 pence per share)
5. EPRA Net Initial Yield (NIY) & EPRA "Topped-Up" Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. The "topped-up" yield is the same as the standard measure as we do not have adjustments for any rent-free periods or other lease incentives.	4.8% as at 30 June 2021 (2020: 5.0%)
6. EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	0.4% as at 30 June 2021 (2020: 0.0%)
7. EPRA Cost Ratio	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	16.8% for the year ended 30 June 2021 (2020: 19.2%)

INVESTMENT ADVISER'S REPORT

Atrato Capital Limited, the Investment Adviser to the Group, is pleased to report on the operations of the Group for the year.

Overview

Since IPO in 2017 we have executed our strategy of acquiring predominantly omnichannel supermarkets, that facilitate both in-store shopping and online grocery fulfilment. We believe these stores represent the future model of grocery in the UK with unique characteristics that make them highly attractive long-term investments.

Omnichannel properties have become the dominant model for last-mile grocery fulfilment. The seamless integration between online and offline fulfilment, together with the growing profitability of online operations, is a very significant development within the grocery industry, empowering operators to be truly agnostic to channel. The global themes of the consumer demanding more choice, more quality, faster fulfilment and all at lower prices, results in large omnichannel supermarkets being ideally placed to serve these desires whether online or physical.

We acquire supermarkets that are critical to the operations of the UK's leading grocers with the benefit of long lease lengths, desirable locations, attractive site sizes and formats that provide our tenants with economies of scale benefits and operational efficiencies to match an increasingly demanding and growing e-commerce consumer base. As well as targeting assets which operate both as physical supermarkets and online fulfilment centres the Group also seeks to ensure that its assets have a solid trading history for the operators and leases benefiting from contractual, upward only, inflation-linked, rental uplifts providing long-dated, secure income streams for investors.

These characteristics have made the business highly resilient, as evidenced by its outperformance through the Covid-19 pandemic collecting 100% of our grocery rental income without interruption, delivering 8.5% growth in our Direct Portfolio like-for-like valuations and 7% growth in EPRA NTA to 108 pence per share as at 30 June 2021.

The change in consumer behaviour toward greater working at home and the increased market penetration of online grocery has resulted in a long-term structural shift in grocery demand. Whilst the pace of growth of the grocery market has inevitably slowed post the height of the pandemic and a more normal life resumes, there is not expected to be a return to the historical working patterns with greater home working leading to a bigger household spend on grocery. IGD is forecasting growth of over 8.1% for UK grocery over the next five years with online expected to be the fastest growing channel.

This long-term expected growth in the UK grocery market has been demonstrated by the record flow of investment into the sector by a broad range of institutional investors including the £14 billion of net investment from the privatisation of Asda and potential pending privatisation of Morrisons. In addition, we have also seen record levels of capital investment into the supermarket property sector from investors looking for assets that offer consistent returns, underpinned by solid corporate covenants and low rent to turnover ratios.

The Group has invested in a geographically diverse Direct Portfolio of freehold and virtual freehold properties let to Tesco, Sainsbury's, Morrisons, Waitrose, Aldi and, post balance sheet, Marks & Spencer Food.

The Group's commitment to sustainability forms an intrinsic part of each element of our investment strategy. We have introduced ESG risk assessments on all prospective acquisitions and we look to improve the sustainability of our Portfolio through asset management.

Supermarkets represent a leading sector for incorporating sustainability related technology into buildings. The nature of these flexible assets makes it relatively simple to retrofit LED lighting and other innovations to reduce the carbon footprint of the building. The scale of the assets also provides a significant roof area for installing on-site solar PV panels. To enhance the environmental performance of the Group's assets and help customers improve their own performance and reduce costs, we continue to explore opportunities to install on-site solar PV energy generation and are actively progressing several projects. For further information see our ESG report on pages 28 to 36.

Investment activity - Direct Portfolio

During the Year, the Group has strengthened its Direct Portfolio considerably with the addition of 20 accretive supermarket assets for £541.2 million, namely:

- In July 2020 a portfolio of six supermarkets via a sale and leaseback transaction with Waitrose & Partners ("Waitrose") for £74.1 million (excluding acquisition costs) with 15 years unexpired lease term and five-yearly, upward-only, CPIH-linked rent reviews
- In July 2020 a Tesco in Newmarket, Suffolk for £61.0 million (excluding acquisition costs) with 15 years unexpired lease term and annual, upward-only, RPI-linked rent reviews
- In August 2020 a Morrisons in Telford, Shropshire for £14.2 million (excluding acquisition costs) with 17 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In September 2020 a Tesco in Bracknell, Berkshire for £39.5m (excluding acquisition costs) with 10 years unexpired lease term and annual, upward-only, RPI-linked rent reviews
- In October 2020 a Sainsbury's in Heaton, Newcastle upon Tyne for £53.1 million (excluding acquisition costs) with 21 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In November 2020 a Tesco and Aldi in Leicester, Leicestershire for £63.4 million (excluding acquisition costs). The Tesco store has a 7 year unexpired lease term and five-yearly, upward-only, open market rent reviews. The Aldi store has a 25 year unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In December 2021 a Waitrose in Market Harborough, Leicestershire for £9.1 million (excluding acquisition costs) with 14 years unexpired lease term and five-yearly, 2% fixed rent reviews compounded annually
- In January 2021 a Waitrose in Winchester, Hampshire for £29.7 million (excluding acquisition costs) with 24 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In January 2021 a Sainsbury's in Melksham, Wiltshire for £35.1 million (excluding acquisition costs) with 17 years unexpired lease term and annual, upward-only, RPI-linked rent reviews
- In January 2021 a Morrisons in Wisbech, Cambridgeshire for £30.0 million (excluding acquisition costs) with 20 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In February 2021 a Sainsbury's in Bangor, Northern Ireland for £24.8 million (excluding acquisition costs) with 16 years unexpired lease term and five-yearly, 2% fixed rent reviews compounded annually
- In February 2021 a Tesco in Prestatyn, North Wales for £26.5 million (excluding acquisition costs) with 12 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews
- In April 2021 a Tesco in Colchester, Essex for £63.0 million (excluding acquisition costs) with 19 years unexpired lease term and annual, upwards-only, RPI-linked rent reviews
- In May 2021 a Morrisons in Murton, County Durham for £18.4 million (excluding acquisition costs) with 20 years unexpired lease term and five-yearly, upwards-only, RPIX-linked rent reviews

The acquisitions have a blended unexpired lease term of 15 years and a blended net initial yield of 5.0%, supporting the Group's ability to grow its dividend whilst also enhancing the quality and diversification of the Portfolio.

Our investment strategy is always driven by acquiring high quality supermarkets. In some cases, these are located on sites with non-food units where the division of the site is either not practical or not acceptable to the vendor. During the Year, we acquired 26 non-food units on 5 supermarket sites for £27.7 million (excluding acquisition costs).

Post balance sheet the Group acquired a further 5 supermarkets with a blended net initial yield of 4.8% for a total consideration of £94.6 million (excluding acquisition costs). The stores acquired post balance sheet were:

- In August 2021 an M&S and Aldi in West Derby, Liverpool for £10.2 million (excluding acquisition cost). The M&S store has a 10 year unexpired lease term and five-yearly, upward-only, open market rent reviews. The Aldi store has 15 years unexpired lease term and five-yearly, upwards-only, 2.5% fixed rent reviews compounded annually
- In September 2021 an Aldi in Oldham, Manchester for £5.6 million (excluding acquisition costs) with 10 years unexpired lease term and five-yearly, upwards-only, 2% fixed rent reviews compounded annually
- In September 2021, a Tesco in Prescott, Liverpool for £50.0 million (excluding acquisition costs) with 15 years unexpired lease term and annual, upwards-only, CPI-linked rent reviews
- In September 2021, a Morrisons in Workington, Cumbria for £28.9 million (excluding acquisition costs) with 17 years unexpired lease term and five-yearly, upwards-only, CPI-linked rent reviews

Post balance sheet, the Group acquired 5 non-food units on a supermarket site for £12.2 million (excluding acquisition costs).

These acquisitions were predominantly financed by the proceeds of two oversubscribed equity raises and the proceeds from new and existing banking facilities (see financing below).

Our Portfolio of supermarkets comprises the properties in the following table:

Tenant	Location	Acquisition Date	Purchase	Valuation at Passing		GIA (sq.ft.)	NSA (Sq.ft.)	Rent review basis	Lease Expiry	Tenure
			Price (millions)	30 June 2021 (millions)	annual rent (millions)					
Tesco	Thetford, Norfolk	Aug-17	£43.20	£43.10	£2.75	78,000	48,000	Annual RPI	Dec-29	Virtual freehold
Tesco	Bristol, Avon	Aug-17	£28.50	£28.70	£1.63	55,000	31,000	Annual RPI	Mar-31	Virtual freehold
Sainsbury's	Ashford, Kent	Aug-17	£79.80	£95.40	£4.08	125,000	72,000	Annual RPI	Sep-38	Freehold
Tesco	Cumbernauld, North Lanarkshire	Dec-17	£50.00	£66.40	£3.14	117,000	70,000	Annual RPI	Aug-40	Virtual freehold
Tesco	Scunthorpe, Lincolnshire	May-18	£53.00	£67.60	£3.08	98,000	65,000	Annual RPI	Aug-40	Virtual freehold
Morrisons	Sheffield, South Yorkshire	Jul-18	£51.70	£60.70	£2.87	113,000	58,000	5 yearly RPI	Oct-39	Virtual freehold
Tesco	Mansfield, Nottinghamshire	Apr-19	£45.00	£54.80	£2.59	90,000	64,000	Annual RPI	Mar-39	Virtual freehold
Sainsbury's	Preston, Lancashire	Aug-19	£54.40	£66.20	£3.08	106,000	78,000	Annual RPI	Feb-42	Freehold
Sainsbury's	Cheltenham, Gloucestershire	Oct-19	£60.40	£63.50	£3.39	98,724	61,964	5 yearly RPI	Jun-32	Freehold
Sainsbury's	Hessle, Yorkshire	Feb-20	£34.00	£35.90	£2.10	70,899	50,763	Annual RPI	Jun-34	Freehold
Waitrose	Eastbourne, East Sussex	Jul-20	£13.30	£13.80	£0.62	34,600	22,177	5 yearly CPIH	Jul-40	Freehold
Waitrose	Edenbridge, Kent	Jul-20	£7.50	£7.90	£0.35	19,104	13,275	5 yearly CPIH	Jul-40	Freehold
Waitrose	Ely, Cambridgeshire	Jul-20	£12.60	£12.90	£0.59	32,890	15,137	5 yearly CPIH	Jul-40	Freehold
Waitrose	Oundle, Northamptonshire	Jul-20	£8.70	£8.90	£0.41	22,104	15,220	5 yearly CPIH	Jul-40	Freehold
Waitrose	Sandbach, Cheshire	Jul-20	£15.80	£16.10	£0.74	40,082	24,443	5 yearly CPIH	Jul-40	Freehold
Waitrose	Sudbury, Suffolk	Jul-20	£16.30	£16.60	£0.77	43,734	30,380	5 yearly CPIH	Jul-40	Freehold
Tesco	Newmarket, Suffolk	Jul-20	£61.00	£63.90	£3.03	106,834	68,421	Annual RPI	Mar-36	Freehold
Morrisons	Telford, Shropshire	Aug-20	£14.30	£14.80	£0.76	42,434	27,200	5 yearly RPI	Nov-37	Freehold
Tesco	Bracknell, Berkshire	Sep-20	£39.50	£40.40	£2.43	80,109	56,729	Annual RPI	Dec-30	Virtual Freehold
Sainsbury's	Newcastle, Northumberland	Oct-20	£49.00	£50.60	£2.01	99,836	67,629	5 yearly RPI	Nov-41	Freehold
Tesco	Beaumont Leys, Leicestershire	Nov-20	£56.50	£65.60	£3.85	149,820	97,081	5 yearly OMV	Feb-28	Freehold
Aldi	Beaumont Leys, Leicestershire	Nov-20	£5.50	£5.80	£0.28	18,500	14,800	5 yearly RPI	Aug-45	Freehold
Waitrose	Market Harborough, Leicestershire	Dec-20	£9.10	£9.20	£0.42	22,522	14,636	5 yearly Fixed	Sep-39	Freehold
Waitrose	Winchester, Hampshire	Jan-21	£20.60	£20.80	£0.90	32,156	25,725	5 yearly RPI	Sep-44	Freehold
Sainsbury's	Melksham, Wiltshire	Jan-21	£35.10	£36.60	£1.61	60,989	44,522	Annual RPI	Sep-37	Freehold
Morrisons	Wisbech, Cambridgeshire	Jan-21	£23.00	£23.40	£0.95	48,835	36,626	5 yearly RPI	Aug-46	Freehold
Sainsbury's	Bangor, Northern Ireland	Feb-21	£18.80	£18.50	£1.00	60,515	44,176	5 yearly Fixed	Aug-36	Freehold
Tesco	Prestatyn, Wales	Feb-21	£26.50	£26.90	£1.49	64,090	46,000	5 yearly RPI	Dec-32	Freehold
Tesco	Colchester, Essex	Apr-21	£63.00	£63.10	£3.02	87,482	54,260	Annual RPI	Feb-40	Freehold
Morrisons	Murton, Durham	May-21	£18.40	£18.50	£0.76	67,114	49,090	5 yearly RPIX	May-41	Freehold
Ancillary pre-balance sheet	Various	Various	£27.70	£31.80	£3.06	232,105	174,079	Various	Various	Freehold
Year-end total	Various	Various	£1,042.00	£1,148.40	£57.76	2,317,478	1,540,333	Various	Various	Various
Aldi ¹	West Derby, Liverpool	Aug-21	£6.10	£6.10	£0.28	16,382	12,287	5 yearly Fixed	Aug-36	Freehold
M&S ¹	West Derby, Liverpool	Aug-21	£4.10	£4.10	£0.23	12,460	9,968	5 yearly OMV	Aug-31	Freehold
Aldi ¹	Oldham, Manchester	Sep-21	£5.60	£5.60	£0.27	16,687	13,330	5 yearly Fixed	Sep-31	Freehold

Tesco ¹	Prescott, Liverpool	Sep-21	£50.00	£50.00	£2.27	139,695	89,205	5 yearly CPI	Aug-36	Freehold
Morrisons ¹	Workington, Cumbria	Sep-21	£16.70	£16.70	£0.78	46,565	35,000	5 Yearly CPI	Dec-38	Virtual Freehold
Ancillary post- balance sheet ¹	Various	Various	£12.20	£12.20	£0.96	72,921	54,200	Various	Various	Various
Post-balance sheet total ¹	Various	Various	£94.70	£94.70	£4.79	304,710	213,990	Various	Various	Various
Grand total ¹	Various	Various	£1,136.70	£1,243.10	£62.55	2,622,188	1,754,323	Various	Various	Various

¹ Acquired post balance sheet date

The properties in the table above are listed chronologically in order of acquisition. Acquisitions after the year end date are described in the post balance sheet event note below.

The Direct Portfolio benefits from attractive leases to strong tenant covenants (Tesco, Sainsbury's, Morrisons, Waitrose, Aldi and post balance sheet; Marks & Spencer), with upward-only, rent reviews and long unexpired lease terms.

The long-term security of the Group's income is evident in the weighted average unexpired lease term of 15 years on the Direct Portfolio (including post balance sheet acquisitions) generating a weighted average yield of 4.7%. In addition, our Portfolio is weighted towards the certainty offered by fixed and inflation-linked leases with 90% of the Direct Portfolio benefiting from upward only, fixed or indexed-linked rent reviews (Including post balance sheet acquisitions) with the balance subject to open market reviews. The quality of the Portfolio and the tenant base has resulted in us collecting 100% of grocery rent and 99.5% of total rent falling due in the financial year.

Investment activity - Waitrose, Market Harborough

In December 2020, the Company acquired its seventh Waitrose store for £9.1m (excluding acquisition costs) representing a net initial yield of 4.3%. The property is located in the affluent town of Market Harborough. This well situated omnichannel Waitrose store has attractive lease terms with an unexpired lease term of 13 years which is subject to 2% fixed rent reviews on a 5 yearly basis.

The appropriately sized 14,636 sq.ft net sales area omnichannel store sits on a 1.6 acre site operating both click and collect and home delivery. The online provision of the store captures a 15 and 30 minute drive time population of 65,446 and 545,634 people respectively, making it a crucial part of the Waitrose online fulfilment network in the region.

As well as complementing the existing portfolio by strengthening both tenant and geographic diversification, the store has an impressive trading history benefitting from a high density, affluent local population.

Investment activity - Tesco, Colchester

In April 2021, the Company acquired an omnichannel Tesco supermarket for £63.0 million (excluding acquisition costs) representing a 4.5% net initial yield. The store, which was built in the 1980s and extensively refurbished in 2011, is located in the populous suburb of Hythe. The property has attractive lease terms with a long unexpired lease term of 18 years subject to annual, upwards only, RPI-linked rent reviews with a 4% cap and 0% floor.

The 54,260 sq.ft net sales area store sits on a 10 acre, offering a large parking provision for over 570 vehicles, a 16-pump petrol filling station, and a dedicated back of house online facility with purpose -built distribution docks. The online provision of the store captures a significant 15 and 30 minute drive time population of 125,097 and 402,362 people respectively.

The well positioned store is one of only two omnichannel Tesco supermarkets in Colchester, both serving different catchment areas, making it a significant online presence within the region and a crucial part of the Tesco online fulfilment Network.

Investment activity - Sainsbury's Reversion Portfolio

Last year the Group formed a 50:50 joint venture (the "JV") with British Airways Pension Trustees Limited acting on behalf of the British Airways Pension Fund to acquire from British Land Plc a 25.5% stake in one of the UK's largest portfolios of supermarket properties (the "Sainsbury's Reversion Portfolio") for £102 million. In February 2021 the JV acquired a further 25.5% stake in this portfolio from Aviva for £115 million, excluding acquisition costs.

The Sainsbury's Reversion Portfolio consists of the freehold interest in 26 geographically diverse high-quality Sainsbury's supermarkets, with a London and South East location bias. It was originally created through two sale and leaseback transactions by Sainsbury's in 2000. The freehold interests of the properties are now owned by Sainsbury's (49%) and the JV (51%). The Group's total contribution to the JV was £108.5 million, excluding acquisition costs. Further details of the Portfolio and the JV can be found in note 14 of the Annual Report.

Post balance sheet date on 9th September 2021, Sainsbury's exercised a purchase option to acquire 13 stores within the Portfolio. Sainsbury's acquisition of the 13 stores will be completed in March 2023 upon expiry of the current occupational leases. The purchase price under the option is to be determined based on the assumption of a new 20-year lease term to Sainsbury's at the higher of passing or open market rent, subject to upward-only, five yearly market rent reviews. The exercise of this first tranche of options is expected to generate a positive NTA impact.

Sainsbury's has a remaining purchase option to acquire or extend its leases on a further 10 stores in the Portfolio which can be exercised between December 2021 and January 2022.

Portfolio valuation

Cushman & Wakefield valued the Direct Portfolio as at 30 June 2021, in accordance with the RICS Valuation - Global Standards which incorporate the International Valuation Standards and the RICS UK Valuation Standards edition current at the valuation date. The properties were valued individually without any premium/discount applying to the Portfolio as a whole. The Direct Portfolio market value was £1,148 million, compared with the assets' combined purchase price of £1,042 million (excluding acquisition costs). The Direct Portfolio increased in value by £609.0 million or 113% in the Year comprising valuation growth of £67.8 million and new acquisitions of £541.2 million (excluding acquisition costs).

This valuation growth of the Direct Portfolio reflects the supermarket operators' covenant strength as tenants, together with overall increased demand in the investment market for high quality assets.

The properties within the Sainsbury's Reversion Portfolio, were also independently valued by Cushman & Wakefield, in accordance with the RICS Valuation - Global Standards, which incorporate the International Valuation Standards and the RICS UK Valuation Standards edition current at the valuation date. The net carrying value of the Group's underlying investment was £130.3 million, increasing by £19.1 million above the Group's combined acquisition price of £111.2 million (including capitalised acquisition costs), which arises from the profit generated by the joint venture in the post-

acquisition period, which includes negative goodwill arising on the additional stake acquired by the JV during the year, and which is included within share of income from joint venture in accordance with IFRS.

Financial results

IFRS net rental income for the year was £47.9 million (2020: £26.4 million). Contracted inflation rent reviews in the year resulted in average passing rent increases of 1.4% (12 months to 30 June 2020: 2.5%) with IFRS £18.2 million rental growth contribution from new acquisitions. The strong rental growth reflects the contracted upward-only, index-linked rent reviews present in the Group's leases.

Administrative and other expenses, which include management and advisory fees and other costs of running the Group, were £9.5 million (2020: £5.2 million) generating an EPRA cost ratio of 16.8% (2020: 19.2%).

Financing costs for the year were £8.5 million (2020: £4.9 million). As at 30 June 2021, the Group's weighted average finance cost was 1.9% (2020: 2.0%). The change in net financing costs in the year reflects the continued growth in the business and the reduction in the cost of borrowing for its most recent facilities. The Group's conservative leverage policy continues to maintain a healthy level of interest cover at 683% compared to the covenant at a minimum of 200%. Further information on financing and hedging is provided below.

As a result of the above, operating profit, before changes in the fair value of investment properties and share of income from joint venture, as reported under IFRS, increased by 82.6% to £38.7 million (2020: £21.2 million).

Change in fair value of the Direct Portfolio investment properties in the year was £36.3 million (2020: £13.0 million), which comprises of £67.8 million increase in valuation offset by £29.1 million of acquisition costs and £2.4 million rent smoothing and guarantee adjustments. The Group's EPRA NTA at 30 June 2021 equates to 108 pence per ordinary share (2020: 101 pence per ordinary share).

The Group is a qualifying UK Real Estate Investment Trust ("REIT") which exempts the Group's property rental business from UK Corporation Tax^[6]. The Total Shareholder Return generated during the year was 11% (2020: 12%). This is measured as the growth in share price over the Year of 5.6% (2020: 6.0%), plus dividends declared for the Year of 5.9 pence per share (2020: 5.8 pence per share) divided by the share price at the beginning of the Year.

Financing and hedging

In September 2020, the Company successfully completed an oversubscribed £200 million Placing and Offer for Subscription under which 192,307,692 new ordinary shares were issued at 104 pence per new ordinary share representing a 3.0% premium to prevailing NTA at the time of issue.

In March 2021, the Company successfully completed a further oversubscribed Placing of Ordinary Shares raising £153 million under which 144,297,503 new ordinary shares were issued at 106 pence per new ordinary share representing a 1.9% premium to prevailing NTA at the time of issue.

During the year, the Group has broadened its banking relationships further, adding Wells Fargo in July 2020 followed by Barclays and Royal Bank of Canada ("RBC") in January 2021. The Wells Fargo secured revolving credit facility of £60.0 million has a seven year term (five year plus two one-year extension options) with a margin of 2.0% above 3-month Libor. The £80 million secured revolving credit facility held with Barclays and RBC has a five year term (three year plus two one year extension options) with a margin of 1.5% above SONIA. The facility has been increased during the year under its accordion option to £114 million with a further £36 million of headroom remaining.

In August 2020, the Group increased a number of its banking facilities with existing lenders to support new acquisitions.

Post year end, the Group increased the Wells Fargo facility by a further £61.3 million, the Deka Bank facility by £20 million and the HSBC facility by £10 million, with a weighted average cost of 1.55% and a weighted average term of 5 years.

The new and increased debt facilities combined (including post balance sheet events) have a weighted term of 4.4 years (including extension options) generating a total weighted debt maturity of 4.0 years (2020: 4.1 years) and a cost of borrowing of 1.84% (2020: 2.21%).

A summary of the Group's credit facilities is provided below:

Lender	Facility	Maturity	Credit margin	Loan commitment £m	Amount drawn at 30 June 2021 £m
HSBC	Revolving Credit Facility	Aug 2022	1.65%	100.0	100.0
Bayerische Landesbank	Term Loan	Jul 2023	1.25%	52.1	52.1
Deka Bank	Term loan	Aug 2026*	1.35%	76.6	76.6
Wells Fargo	Revolving Credit Facility	July 2027*	2.00%	60.0	30.0
Bayerische Landesbank	Additional Term Loan A	July 2023	1.85%	7.3	7.3
Bayerische Landesbank	Additional Term Loan B	Aug 2025	1.85%	27.5	27.5
HSBC	Revolving Credit Facility	Aug 2022	1.75%	40.0	6.1
Barclays/RBC	Revolving Credit Facility	Jan 2026*	1.50%	113.75	113.75
Total				477.25	413.35
<i>Post balance sheet events</i>					
Deka Bank	Additional Term Loan A	Aug 2026*	1.40%	20.0	0.0
HSBC	Revolving Credit Facility	Aug 2023	1.75%	10.0	0.0
Wells Fargo	Revolving Credit Facility	July 2027*	1.40%	61.3	0.0
Total				568.55	n/a

*Including two further one-year extension options.

The Group has a conservative leverage policy, with a medium-term LTV target of 30%-40%. At the year end, total net debt was £390.1 million, reflecting a net loan-to-value ("LTV") ratio of 34% (35% LTV including the proportional consolidation of the Sainsbury's Reversion Portfolio). Including post balance sheet acquisitions and loan drawdowns the Group's gross LTV is 41%. The Group has further balance sheet financing capacity to deploy into opportunities that it may see in the market.

Each loan drawn under the credit facilities requires interest payments only until maturity and is secured against both the subject properties and the shares of the property-owning entities. Each property-owning entity is either directly or ultimately owned by the Group.

The Group has significant headroom on its LTV covenants. The covenants contain a maximum 60% LTV threshold and a minimum 200% interest cover ratio for each asset in the Portfolio. As at 30 June 2021, the Group could afford to suffer a fall in property values of 40% before being in breach of its LTV covenants and, with the current hedging arrangements it has in place, it has significant interest cover headroom. Further details of the Group's debt and interest rate hedging can be found on page 88 of this announcement.

Whilst the Group retains sufficient flexibility in its existing facilities through extension and accordion options the Board recently appointed Rothschild as debt adviser to explore future options for achieving the most operationally efficient and flexible funding structure in supporting both future growth and the refinancing of existing debt facilities.

Dividends

The Company has declared four interim dividends for the year as follows:

- On 17 September 2020, a first interim dividend of 1.465 pence per share, which was paid on 16 October 2020
- On 8 January 2021, a second interim dividend of 1.465 pence per share, which was paid on 26 February 2021
- On 8 April 2021, a third interim dividend of 1.465 pence per share, which was paid on 21 May 2021
- On 8 July 2021, a fourth interim dividend of 1.465 pence per share, which was paid on 20 August 2021

The Group's EPRA dividend cover ratio was 1.04x for the year (2020: 0.84x). The increase reflects the increased level of deployment of equity proceeds increasing the EPRA earnings available to cover the dividends paid.

The Company has increased the quarterly dividend payable from October 2021 by 1.4% from 1.465 to 1.485 pence per share (representing an increase equivalent to the average annual inflation increase in our rents for the period June 2020 to June 2021).

The Company is, therefore, targeting a dividend for the year to 30 June 2022 of 5.94 pence per share.

Asset management

We have deep knowledge and understanding of the market, and strong relationships with both tenants and market participants. This means we have unparalleled insight into market opportunities to secure better returns for Shareholders, often through off-market transactions. We also use our relationship driven approach to monitor the broader market for opportunities where we can acquire assets and add value through active asset management.

A good example of this is our acquisition of the Tesco store and adjoining parade of units in Leicester. This 97,000 sq ft net sales area Tesco Extra houses a purpose-built online fulfilment facility which supports Tesco's online grocery across its catchment and is a strategically important site for Tesco.

It was acquired for £63.4 million (excluding acquisition costs) reflecting a combined net initial yield of 6.4% with an unexpired lease term of seven years, and it presents numerous potential opportunities to drive income and increase the capital value. This includes increasing value through agreeing a lease regear with Tesco, enhancing the configuration of the built area and site to improve customer experience and increasing the asset's sustainability through green initiatives, such as power generation from the installation of on-site solar panels.

We are passionate about improving the environmental impact of our properties and work closely with our tenants over the long term to improve the EPC ratings of our properties.

Atrato Capital Limited
Investment Adviser
22 September 2021

OUR MARKET

Supermarket real estate assets represent a highly attractive asset class for investors seeking long dated, secure, inflation-linked income with capital appreciation potential over the longer term.

Supermarket property leases are often index-linked, long in duration and tenanted by large institutional grade operators. Supermarkets are typically large modern buildings located near population centres and transportation networks. Larger stores also often operate as last mile fulfilment centres for online grocery via both home delivery and/or click and collect. These stores are known as omnichannel supermarkets.

Consumers have continued to demand faster and more convenient ways to buy and receive groceries. Combined with the impact of the Covid-19 pandemic, this consumer trend has led to a rapid rise in online shopping over recent years. Omnichannel supermarkets provide the operator with fulfilment capacity from locations adjacent to large customer populations with minimum delivery times. This proximity to customers together with greater economies of scale has transformed the profitability of online grocery. The combination of all these factors means that omnichannel properties have become the dominant model for last-mile grocery fulfilment in the UK.

A pillar of the Company's investment strategy is to invest predominantly in omnichannel supermarkets. These stores not only benefit from conventional in-store grocery sales but are also uniquely positioned to benefit from an increase in online grocery sales in the future.

The growing dominance of the omnichannel model in the UK's online grocery market together with the covenant strength of the operators, is driving value creation in the supermarket property investment market. This has been demonstrated during the Covid-19 pandemic where omnichannel supermarkets were pivotal to the critical supply of food to the nation.

The UK grocery market

The unprecedented shifts in consumer shopping behaviour caused by the Covid-19 pandemic have resulted in an enlarged UK grocery market. Over the course of 2020, the impact of the UK's lockdown measures resulted in an estimated £13 billion increase in grocery spending^[7]. As lockdown measures are now being removed, continued and potentially permanent elevated levels of home working are translating to a longer term increase in grocery demand. IGD estimates home working is increasing the average weekly shopping basket by 5% to 10% and thereby providing a persistent positive shift in grocery sales. IGD estimates the UK grocery market will reach £212 billion in 2021 representing c.11% increase versus 2019 and growing to over £217 billion by 2023.

IGD UK grocery market size (2016 to 2020 and 2021 to 2023 forecasted)

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

The pandemic has accelerated a move to online grocery shopping, propelling the online channel to 13% of the market, from 8% a year earlier. The online channel now represents between 12% to 18% of Tesco and Sainsbury's total sales^[8]. We believe much of this increase in demand for online is here to stay as online ordering becomes an integrated part of customers' grocery shopping habits.

The major supermarket operators have supplied much of the capacity that has enabled online sales to grow so quickly. Our research estimates that Tesco, Sainsbury's and Asda now provide over 80 percent of UK online capacity by delivery slots. This dominance has been achievable due to their network of omnichannel supermarkets, which are extremely well placed to provide last mile delivery. Larger supermarket sites were very effective in meeting the increased demand for food and importantly, had the operational flexibility to rapidly increase online fulfilment capacity. The substantial capacity growth by Tesco, Asda, Sainsbury's and Morrisons (the "Big Four") to meet online demand has refocused the vital role of the omnichannel store operating as last mile logistics nodes in the nation's food supply network.

UK Grocery Market Operators

The UK grocery market continues to be dominated by the Big Four who boast a combined market share of approximately 66%. Each of the Big Four has multi-billion-pound revenues, an established consumer brand and strong credit covenants serving customers through more than 7,500 stores in the UK.^[9]

The lower-price grocery operators (the "Discounters") such as Aldi, Lidl and Iceland continue to grow through ambitious store opening plans capturing a combined market share of 14%. These operators play an integral role in the UK market, successfully operating a strategy of price and assortment management whilst focused on the in-store sales channel via a network of smaller supermarkets across the UK. Their lower cost, low margin business model requires simplicity and standardisation of range which is attractive to a sub-set of consumers but at odds with the fulfilment intricacies and product assortment required in online grocery. This means that the Discounters will maintain their focus on their in-store sales strategy and not expand into mainstream online grocery fulfilment. We believe that the Discounters have a sustainable business model and that selective acquisitions can make attractive and accretive additions to the Company's portfolio.

UK Grocery Market Channels

As illustrated below, the supermarkets' sales channel is the most dominant sales channel in the UK grocery market. The online channel is expected to see the largest growth, doubling in size by 2023 compared to 2019. Omnichannel store networks are playing the key role in meeting this increased demand for online fulfilment. Combining in-store supermarket sales (the most dominant channel) with online fulfilment (the fastest-growing channel) will see c.60% of all UK grocery market sales fulfilled through supermarkets. As such, omnichannel store sales are expected to grow by over 11% between 2019 and 2024.

IGD UK channel forecasts (2016 to 2020 and 2021 to 2023 forecasted)

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

UK grocers have pioneered the development of the omnichannel business model which seamlessly integrates both in-store and online fulfilment by using the supermarket as a last mile distribution hub for click and collect and home delivery, creating world-leading last-mile grocery fulfilment platforms.

The ability to meet increased demand efficiently and in an operationally flexible manner is observable in the increase in the availability of delivery slots. As illustrated below, Tesco, Sainsbury's and Asda have all substantially increased delivery slots allowing them to capture the majority of the elevated online grocery demand.

Online grocery weekly delivery slot change (March 2020 to June 2021)

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

Supermarket property

Lease structures

Supermarket lease agreements are often long dated and index-linked. Original lease tenures range from 20 to 30 years without break options. Rent reviews often link the growth in rents to an inflation index such as RPI, RPIX or CPI (with caps and floors), or, alternatively, may have fixed annual growth rates or open market rent reviews. An open market review means that the rent is adjusted (usually upwards only) to reflect the rent the landlord could achieve on a letting in the open market. Such rent reviews take place either annually or every five years, with the rent review delivering an increase in the rent at the growth rate, compounded over the period.

Landlords usually benefit from "full repairing and insuring leases". These are lease agreements whereby the tenant is obligated to pay all taxes, building insurance, other outgoings and repair and maintenance costs of the property, in addition to the rent and service charge.

Operators will typically have the option to acquire the leased property at the lease maturity date at market value. Furthermore, to ensure that the operator does not transfer its lease obligation to other parties, assignment of the lease is often restricted.

Investment yields

Supermarket property is a distinct commercial real estate asset class with a long record of positive total returns underpinned by strong income returns due in part to the long length of lease commitments, upward-only rent review growth and strong occupier covenants.

Investment yields on supermarket property reached a low of 4.3% in 2007 before a period of negative yield shift in contrast with the wider long-income property market. However, the pandemic has seen a reversal of this trend with yields tightening by c. 0.3% in the previous 12 months.

IPD net investment yields 2004-2021 (YTD)

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

Over the last five years the distribution warehouse subsector of the property market has seen a significant compression in yields, which accelerated during the pandemic, as logistics assets played a key role in meeting consumer demands for more convenient and faster deliveries of goods. Distribution warehouses are fundamentally performing a different role to supermarkets in the supply chain. However, the Investment Adviser believes there are certain similarities in areas such as online sales, with supermarkets fulfilling online deliveries out of their larger omnichannel stores. Despite these similarities, there has been a significant difference in how the underlying property yields of the two sectors have performed.

Supply and demand

A more competitive marketplace as a result of increased demand for grocery property and a relative shortage of new supply over the past year has translated into a tightening of yields, particularly for the high quality supermarket assets targeted by the Company.

The improved financial performance by the UK's major grocery operators against a backdrop of growing UK grocery demand has attracted domestic and international institutional investors to supermarket property. Existing supermarket property owners have been tempted to sell, either to take advantage of pricing dynamics and recycle capital elsewhere, or in some cases meet fund redemptions or bank re-financing requirements.

The result has been a material increase in investment volumes for grocery property which have increased to £1.8 billion in 2020 vs a £1.4 billion annual long term average^[10].

Whilst there has been some supply of new grocery investment property opportunities from the growth in the store network of the Discounters, the Big Four, already benefitting from large and established store networks, have been in a period of consolidation with very few new large format store openings.

In addition to not providing new supply to the market, Tesco continues to be a net buyer of stores adding to competition for its leasehold estate. Since 2017, Tesco has completed over £1.2 billion of store buybacks.

The Investment Adviser believes that operator buybacks and lack of new sale and leaseback supply will continue to be a key theme in the investment market due to IFRS 16 and the relative cost of leasing versus debt finance. The change to accounting rules from IFRS 16 means that reducing existing lease commitments is an attractive way for the operators to strengthen their underlying balance sheet. IFRS 16 effectively requires all rental obligations to be capitalised on balance sheet as a financing liability and then expensed as a finance cost rather than rental expense in the income statement. The continued strength of the debt markets means that it is economically compelling for corporates to finance with debt instead of leases. This held true even for the high yield or speculative grade debt issued to fund the acquisition of Asda.

The Investment Adviser believes that the increased institutional interest in the sector and limited supply of new stock from operators will continue for the medium term, leading to further compression in yields closer to those for broader UK commercial real estate, with a corresponding increase in supermarket property asset values.

Opportunities for asset management

In addition to current rental yields, supermarket property has further potential for asset management upside opportunities to enhance total shareholder return.

Given the nature of supermarket property, the Company often acquires neighbouring land and/or property alongside the supermarket asset. These can range from additional retail units to car showrooms to undeveloped land. The Company works closely with its tenants on all available asset management opportunities with a view to enhancing long-term Shareholder returns by increasing cash yields from light asset management and repurposing, and, where appropriate over the longer term, releasing development profit opportunities.

Future prospects

The Investment Adviser believes that supermarket property investment yields continue to present a buying opportunity, as supermarket operators appear to be entering a period of higher earnings and strengthening balance sheets. Rent payments for supermarket tenants were consistently paid in full and on time throughout the period of disruption due to the pandemic. Meanwhile, the underlying nature of the asset as key food infrastructure continues to provide investors with long term, reliable, inflation-linked income.

The combination of high credit quality tenants, attractive lease characteristics and strong online property fundamentals, give the Directors and the Investment Adviser conviction that supermarket real estate assets provide an attractive investment opportunity.

IMPLEMENTING THE GROUP'S INVESTMENT POLICY

The supermarket property sector remains an attractive investment opportunity and we continue to demonstrate our ability to source attractively priced, high-quality supermarket property.

Investing in the future model of UK grocery

Our investment strategy is simple. We seek to own and actively manage a leading portfolio of high-quality supermarkets which deliver low-risk and growing income returns that are resilient through economic cycles.

Our Investment Policy places various restrictions on the investments that may be made by the Company. In practice, we implement the Investment Policy by investing in supermarket assets that we consider to be sustainable as grocery sites in the long-term. We call these future-proof supermarkets and they are characterised by the following features:

- Predominantly omnichannel supermarkets, operating as both physical stores and online fulfilment centres
- Let to tenants with strong covenants and established positions in the UK grocery sector
- Modern flexible buildings adapted to operate both in-store and online operations, accommodating multiple loading bays, refrigeration units and home delivery vehicles

- In the right locations, situated in population centres close to consumers
- Strategically located close to major road networks, allowing efficient goods inward stocking, distribution of home deliveries and convenient access to click and collect facilities
- Large floor areas, capable of housing a full range of fresh groceries and providing economies of scale for the operator
- Meeting the ESG criteria embedded into our investment decision making process

We target standing assets which are completed stores that have a tenant in place on acquisition. The investment is thereby income producing from the point of purchase with the tenant remaining committed to the existing lease terms. We typically target investments with long leases, but we may acquire assets with shorter leases, if we can create value by re-gearing or re-letting.

We target assets which offer value to our Shareholders and usually have a yield range of approximately 4% - 6%. Our investment objective is to deliver a total return of 7% - 10% per annum over the medium-term with total return based on geared net rental income plus growth in EPRA NTA.

As our Portfolio continues to grow, we benefit from economies of scale and increased diversification by both geography and tenant, which is further achieved by seeking to achieve representation of the key UK grocery market participants within the Portfolio. We, therefore, take opportunities to acquire assets occupied by those of the Discounters or operators at the premium end of the market which have a successful store-based strategy. A larger portfolio also gives us greater insight into our tenants' operations, grocery market developments and greater potential to create multi-asset initiatives.

In targeting the strongest grocery assets as set out above, in some cases we will acquire non-food units which are on the same site as the supermarket and are complementary, enhancing the site offer and driving greater footfall. This is often a requirement of the vendor, so being able to acquire the whole asset is key. Acquiring such additional units also has the benefits of providing greater control over the site and diversification of income. As at 30 June 2021, our non-food assets accounted for 2.8% of our Direct Portfolio value and 5.3% of annualised income, whilst the largest single non-food tenant by value is Homebase representing 0.8% of our Direct Portfolio.

We recognise that we have a broader responsibility to society than simply generating Shareholder returns and to reflect this we have embedded an assessment of ESG criteria into the investment decision making process. Full details are set out more fully in the ESG report on pages 28 to 36.

Optimising Portfolio value

Our deep understanding of where and how each of our grocery stores fits both within the national store network and the micro catchment area is key to our investment decision.

A good example of this is our Tesco omnichannel store in Bracknell acquired in September 2020.

This modern omnichannel store has been extended a number of times over its history the last of which took place in 2008 to support Tesco's growing online grocery business across the region.

This store houses 57,000 sq ft net sales area whilst also operating multiple online fulfilment distribution docks for home delivery vehicles plus a purpose-built drive-thru click and collect facility. This modern omnichannel operation enhances the re-gear potential of the supermarket and the long-term value of the underlying real estate.

Capitalising on the depth of our relationship with occupiers is a key part of our overall strategy. Our regular programme of operator engagement at all levels of the organisation allows us to identify opportunities to enhance our sites and generate additional income to increase capital values. An example of this is providing environmentally sustainable supermarkets to support carbon reduction efforts and lower running costs for occupiers.

We continuously evaluate the performance of individual assets and look to maximise the positive attributes of the Portfolio as a whole. We also review external factors that could influence future performance and opportunities for asset management.

Our asset management strategy aims to create value throughout the asset lifecycle. In particular, we look to protect and grow our income and capital values by creating business plans for each asset and regularly monitor and assess delivery against these plans. For example, we have performed extensive due diligence on the opportunity to install on-site decarbonised energy producing plants across our estate linked to our sustainability objectives. Our ambition is to install photovoltaic systems across the majority of our Portfolio. Through green energy initiatives, we assist our tenants in their transition to a lower carbon emission future.

We continue to explore and work with our tenants on the repurposing of space that allows operators to maximise the value of their building and, potentially, increase underlying footfall or revenues per square foot by adding new customer offerings or facilities in or around the store.

ESG REPORT

Introduction

As a business, Supermarket Income REIT recognises the importance of acting responsibly towards the environment, local communities, Shareholders and society as a whole. We are working to develop our capabilities and refine our internal processes in line with the priority of aligning all our activities with Environment, Social and Governance (ESG) issues that are important to our stakeholders and our business.

During the course of the past 12 months, the Board and our Investment Adviser have undertaken a detailed review of our business, ESG priorities and processes to ensure that the Company is delivering to the expectations of stakeholders. A fundamental aspect of that process was an in-depth materiality assessment which resulted in the formalisation of the following priorities:

- Mitigation of environmental impact
- The highest standards of governance and reporting
- Engagement with tenants and wider stakeholders
- Responsible citizenship and support for communities

Further details of the materiality assessment and the process underpinning it are set out on page 33.

Buildings can be significant contributors to emissions and hence we have made improving the sustainability performance of our assets, for example by improving their energy efficiency (measured by their Energy Performance Certificate or 'EPC') central to our investment strategy. Where feasible, we also seek to minimise the impact that our properties have on the local and wider environment.

As an owner of important assets located in communities across the UK, we intend to support initiatives to enhance the lives of the people close to our supermarkets, be good neighbours and partner with our tenants to support local causes.

We are aware of the importance to our investors and wider stakeholders of ESG matters. During the financial year, the Board has worked to commit to a more formal sustainability approach by reviewing the reporting and governance framework under which it operates. The Terms of Reference of the Audit Committee have been updated to include the responsibilities of ESG oversight in relation to the Company's internal processes and the investment activities carried out by the Investment Adviser. We have outlined our approach to responsible investment on our website, and, prior to the end of 2021, we will publish our commitments to implement goals and targets for the period ahead.

Refining our Approach

During 2020 and 2021, we undertook a rigorous review of our approach to sustainability, evolving our strategic thinking towards more sustainable business practices. We intend to leverage the unique nature of our business model and develop an operational framework that drives continuous focus on safeguarding the environment and society.

The Board is responsible for setting business strategy, overseeing performance and business conduct, determining the policy and objectives guiding the Portfolio and risk management services executed by the Investment Adviser, and oversees alignment with business strategy and values. We are implementing an ESG programme, underpinned by the highest governance standards and overseen by an experienced Board. While commitments are important and serve to set a path toward the achievement of our long-term goals, we are acutely aware that those commitments must be met with tangible steps to drive performance. Consequently, we have primarily focused our initial actions on the following areas:

- Strengthening oversight of ESG and sustainability
- Integration of ESG and sustainability criteria into the evaluation of asset acquisitions
- Ensuring our assets enhance communities in which they are located
- Committing to enhancing the sustainability of our buildings
- Engaging and partnering with our tenants

Oversight and Governance

As a first step, we have formalised our ESG commitments into policies, updated the terms of reference of the Board's committees and refined our overall reporting framework. During the year to 30 June 2021, we commenced a rigorous assessment of our approach to oversight and governance of sustainability, which is central to the development of an effective strategy. This review resulted in integrating sustainability criteria into the remit of the Audit Committee, under the oversight of Jon Austen, the Chair. The terms of reference of the Committee were updated to reflect this change and to ensure a focus on sustainability factors on a par with the financial aspects of our business. Simultaneously, Steve Windsor undertook responsibility for the monitoring and managing of ESG risks and opportunities at our Investment Adviser.

This decision was guided by an internal analysis of the skills, knowledge and experience of our Directors, which identified the most appropriate framework to address and oversee ESG factors. In line with the recommendations of the AIC Code of Corporate Governance, during the past year, the Board also carried out an assessment of the current structure and operation of the Board. That assessment evaluated the balance of skills, knowledge, experience, independence and diversity of the Board. The results of this evaluation helped us to identify areas we can strengthen. The process is detailed in full in the Nomination Committee report.

Under our strengthened governance structure, the Board approves the Group's Sustainability Strategy, Sustainability Policy and other relevant policies, and receives updates from the Investment Adviser at least once per quarter. The Board also oversees the Investment Adviser's policies to ensure that environmental and social priorities are incorporated into the investment strategy. In line with the increased focus on ESG and sustainability at the Company and across our stakeholders, the Atrato Group recently finalised and published its own ESG policy, which can be found on their website.

ESG and Asset Evaluation

The Board has always approached transactions and operational activities in a manner which seeks to minimise detrimental impacts to the environment and local communities and has, over the past 12 months, taken a more formalised approach to this process. The Investment Adviser has also strengthened its responsible investment strategy by drafting an investment policy grounded on responsible investment principles and defining a scorecard focused on key ESG-related criteria to guide investment decisions.

The implementation of a scorecard focused on key sustainability and ESG-related measures is an effective tool in ensuring that both existing and potential assets are aligned with our strategy as a responsible business, as it guides both investment activity and asset management. The development of ESG criteria is a core aspect of implementing an asset management framework that allows management to oversee the development and enhancement of the Company's ESG and sustainability strategy, its integration into the everyday running of the business and tracking of performance against key ESG pillars. The core aspects of the ESG scorecard employed by the fund management teams are:

- Energy efficiency of buildings
- Tenant commitments on the environment
- Store contribution to the local community
- Tenant approach to stakeholders and supply chain

The development of a robust methodology to evaluate the ESG performance of our assets will also allow us to align our future commitments with specific targets and goals and set meaningful KPIs. Having undertaken extensive engagement with stakeholders and a materiality assessment, we intend to develop such a framework in the coming year and provide further details in next year's Annual Report. The goals and targets will be aligned with the output of the materiality assessment and our updated approach to responsible investment.

The Board, in conjunction with the AIFM and the Investment Adviser, has refined the implementation of the Company's Investment Policy to reflect an enhanced focus on ESG considerations. While the updated investment criteria ensure a consistent and quantifiable approach to the application of ESG considerations to investment decisions, the approach has

been designed to be agile ensuring that the Company can continue to assess investment opportunities in a time-efficient way.

Additionally, we work with specialist third parties to conduct detailed site inspections of properties to evaluate them independently against best practice and regulatory compliance across a range of sustainability and ESG measures. These assessments then feed into the investment decision-making process.

While we have made significant advances in integrating sustainability considerations, we will continue to make further advances in the remainder of 2021 and 2022. As detailed later in this report, the completion of a materiality assessment over the previous months has provided clarity around the issues of priority in terms of ESG, reporting and stakeholder concerns. The natural next step for our business will be the focus on target and goal setting, which will allow us to track and enhance performance as well as improve communication with Shareholders.

ESG is now front of mind for all stakeholders and the Company recognises the need to demonstrate how we are integrating these considerations into our business. Our commitment to responsible investment, which is available on our website, sets out our commitment to integrating these considerations and mitigating our impact

Tenant engagement

The Company's tenants are primarily leading supermarket retailers who have already committed to high standards regarding sustainability, including reducing greenhouse gas emissions and energy use, supporting biodiversity, and establishing responsible practices throughout their operations and supply chain. Such characteristics make our tenants ideal partners in driving greater sustainability of our assets and operations.

Ongoing tenant engagement provides the opportunity to discuss how the Company can support our tenants on sustainability initiatives, as well as their own efforts to mitigate the impact of their operations. For example, we have been supporting Tesco with the rollout of solar panels, extending an initial pilot in one store, to a total of nine stores, or around one third of the Company's Direct Portfolio. Likewise, Sainsbury's has undertaken a programme of environmental measures at our properties including on heating and refrigeration, installing energy-efficiency LED lighting, and increasing water efficiency.

We have also discussed how our tenants can support the Company's own environmental initiatives through providing data on energy use and emissions since properties are typically leased as full repairing and insuring (FRI) which gives the tenant substantive control rights over the property during the lease term along with responsibility for all external and internal maintenance. Access to energy use and emissions data will help us deliver on a future ambition to report in line with GRESB which requires extensive disclosure on categories such as energy use, emissions, and water use.

Tenant engagement is managed in line with the preferences of individual tenants, and ranges from regular scheduled meetings to more informal discussions as needed.

Commitment to enhance the sustainability of our buildings

The Company seeks to minimise the impact that its properties have on the local and wider environment.

We have conducted a full assessment of the EPC ratings of our Portfolio to benchmark current performance which is shown below. While the overall portfolio rating is C-56, as at 30 June 2021, there were nine properties which held an EPC rating of 'D' or 'E' on that date representing 30% of the Portfolio by number and 30% by value. This compares to 14 properties which had a D or E rating at the end of the prior financial year showing progressive improvement in the energy rating of our assets year-on-year. Two properties, in particular, a Tesco supermarket in Newmarket and one in Thetford, improved from an E rating to an A rating, the highest available EPC score, leaving only one E rated supermarket asset within the Portfolio.

70% of supermarkets assets are rated A-C, based on number of assets

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

In order to continue to drive improvements across the Portfolio, we have programmes underway to enhance EPC ratings across a number of assets in the current year, particularly across lower rated properties. We make a conscious effort to acquire assets with higher EPC ratings or where opportunities have been identified to improve the EPC rating through active asset management initiatives. As an example, the average EPC rating of stores acquired during the 12 months to 30 June 2021 on an unweighted basis, was B, compared to D for the previous year.

In addition to enabling the Company to drive improvements in its existing portfolio, a deeper understanding and assessment of the EPC profile of the Portfolio also provides additional detail to help inform future investment strategy. We are also actively looking at how lease renewals on existing properties can be structured to add incentives that would encourage tenants to undertake improvements to reduce emissions, energy and resource use.

The Board has also considered the evolving ESG expectations and reporting requirements for public companies. This included the Taskforce on Climate-Related Financial Disclosure, which will become a reporting requirement in the years ahead. Consideration was also given to the consultation exercise by the Department for Business, Energy and Industrial Strategy (BEIS) on improving minimum energy efficiency standards (MEES) in the non-rented sector. We have fed into this consultation to suggest routes by which MEES compliance can be structured effectively for properties governed by FRI leases.

While our tenants retain responsibility for energy and resource use across the Company's estate, we have sought to gain a clearer picture of the emissions produced by the Investment Adviser. Accordingly, the Investment Adviser has committed to undertake its first Streamlined Energy and Carbon Reporting (SECR) which will be included in the 2022 Annual Report. The Investment Adviser has also provided details of its approach to other areas of sustainability and published its ESG policy. We believe this increases the overall transparency of our sustainability reporting for our stakeholders.

UN Sustainable Development Goals

The Company can contribute to global efforts around sustainability to achieve meaningful, lasting progress and mitigate climate change through how we run our business. We also recognise that our investors and other stakeholders want to understand our position on these important topics.

We have chosen to align our efforts with the UN Sustainable Development Goals ("SDGs"). The SDGs were first adopted by UN member states in 2015 as an urgent call to address 17 global environmental and socioeconomic issues with the ambition to meet 169 related targets by 2030. While we cannot contribute to all of the SDGs, we consider the following three areas to be aligned to our sustainability efforts:

Decent work and economic growth

The Company is committed to supporting tenants in being a good neighbour, as well as being a cornerstone of vibrant communities. Our tenants employ thousands of people, providing a platform for local economies to continue to prosper

and grow.

Sustainable cities and communities

The Company focuses on ensuring lasting positive impacts wherever it operates. Thriving communities promote thriving tenants. We aim to ensure our buildings and its surroundings provide safe and comfortable environments for all users. The Company continues to support tenants' community giving.

Climate Action

The Company is committed to reducing the carbon footprint of its portfolio. We engage with tenants to enhance the buildings we own and have been successful in partnering on a number of initiatives, including the installation of solar panels in partnership with Tesco. We also continue to integrate environmental considerations into our acquisition and building evaluation process.

Our Material Priorities

To better understand the sustainability issues, risks and opportunities that are most important to the Company and our stakeholders, following the completion of the 2021 Financial Year, we completed our first sustainability materiality assessment. The aim of this assessment was to identify the priority ESG areas for the Company based on their importance to our business and their significance to our stakeholders, ultimately playing a central role in the development of our long-term sustainability strategy. The process deepened our understanding by engaging with investors, tenants and staff of the Investment Adviser through meetings, surveys and one on one engagement, all complemented by in-depth research carried out by third party specialists.

Working with external consultants we identified a 'long list' of topics relating to environment, social and governance factors, drawn from sources including stakeholder and investor feedback; our tenants' policies around sustainability and ESG; and leading ESG standards and frameworks including SASB, GRI and GRESB. These were further refined and evolved into questions which were shared with stakeholders and management at the Investment Adviser. The step-by-step process is detailed below:

Our Approach

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

The resulting materiality matrix presents an overview of the priority ESG issues for the Company and its stakeholders.

Materiality Matrix

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

The results of the materiality assessment were then assessed and used to develop our sustainability priorities. We will ensure the high priority areas remain a focus over the period ahead, most of which are aligned with our goals for the coming fiscal year. We hope that our first step to providing greater line of sight over the EPC ratings of our buildings as well as engagement with tenants demonstrates our commitment to enhancing that aspect of our business in line with stakeholder feedback. Similarly, we have placed a particular emphasis on enhancing our reporting during 2021 and will continue to do so in the coming year as we further develop our strategy and build the data framework necessary to drive greater performance.

Governance

As outlined in detail in pages 55 to 64 of the Annual Report, in compliance with the AIC Code Corporate Governance, the Board has ultimate responsibility for and oversight of all aspects of the business, including sustainability and risk management. While the Board has developed a strong and collaborative relationship with the AIFM and Investment Adviser, who are responsible for crafting proposals in respect of portfolio and risk management services to the Board, it maintains a careful oversight of investment activities. The Board relies on the skills, experience and insight of the Investment Adviser to protect returns, promote the contribution of our tenants and advocate improvements in real estate standards.

The Board is also responsible for maintaining a culture aligned with the Company's purpose, values and strategy. While the Company has no employees, the Board pays close attention to culture of the Investment Adviser and its employees and believes that its forward thinking and entrepreneurial approach, combined with its rigour and discipline, is the right fit for delivering our strategy and purpose.

Investment Adviser's ESG Overview

The Investment Adviser has supported the Company in evolving its approach to sustainability and ESG during 2021. The Company's strategic choice of tenants who are leaders in the supermarket retail industry, with their own high standards of environmental and social responsibility, feeds into the Company's own ESG contribution.

In support of the Company's enhanced ESG commitments in 2021 we are also providing increased disclosure around the Investment Adviser's approach to ESG.

Environment:

The Investment Adviser's primary environmental footprint is in relation to its office in London. This office is energy-efficient and features automatic reduction of air conditioning operations in low temperatures and passive infrared sensor (PIR) lighting. The office is supplied with renewable electricity, and water efficiency measures include rainwater harvesting to supply toilet cisterns. Employees are encouraged to use public transport or cycle to work, and recycling facilities are available and general waste production minimised through lack of desk bins. Office service partners must meet sustainability criteria.

Social:

The Investment Adviser has a talented and committed team who operate within a high-performance and dynamic culture. During the Covid-19 pandemic the health and safety of the team was a high priority and they adapted very well to the challenges presented by remote working. Further details of support systems and processes in place for staff are outlined below.

- Professional development includes peer training, online learning and Corporate Criminal Offence training; work is underway to develop a professional training structure
- A performance management approach is also in development
- Employee engagement includes bi-annual strategy meetings, bi-weekly team meetings, and employee surveys, most recently in December 2020 resulting in increased holiday allowance and review of pension provision
- Staff are offered health insurance

- During Covid-19 lockdown additional measures were introduced to support staff working from home; additional IT equipment such as keyboards and screens were made available to support remote working and virtual staff socials were held
- Staff remuneration policy has been benchmarked by external consultants
- Staff have access to a grievance process
- Diversity and inclusion is actively supported and 40% of the senior management team are women. Currently the Investment Adviser has no ethnic diversity among senior managers
- Charitable partners include FareShare and The Trussell Trust (fighting hunger and tackling food waste); Young Lives vs Cancer/Clic Sargent and the Brain Tumour Charity; and IntoUniversity providing local learning centres to inspire young people to achieve
- Staff can volunteer during work time to support a chosen cause
- Health and safety policy was updated to take account of Covid-19: no injuries were reported to staff during 2020

Governance:

The Investment Adviser adheres to the highest standards of governance. Some of the policies and procedures that we have in place are listed below and more details can be provided on request.

- Anti-bribery and corruption zero tolerance policy
- Anti-financial crime and market abuse procedure
- Conflicts of interest policy
- Financial Crime risk assessment will be refreshed for 2021
- Data protection and privacy
- Fraud prevention (including personal account dealing policy; AMLO report and Criminal Finances Act training)
- Privacy notice
- Whistleblowing policy
- No political contributions made

OUR PRINCIPAL RISKS

The Board and JTC Global AIFM Solutions Limited, the Company's Alternative Investment Fund Manager (the "AIFM"), together have joint overall responsibility for the Company's risk management and internal controls, with the Audit Committee reviewing the effectiveness of the Board's risk management processes on its behalf.

To ensure that risks are recognised and appropriately managed, the Board has agreed a formal risk management framework. This framework sets out the mechanisms through which the Board identifies, evaluates and monitors its principal risks and the effectiveness of the controls in place to mitigate them.

We aim to operate in a low-risk environment, focusing substantially on a single sector of the UK real estate market. The Board and the AIFM therefore recognise that effective risk management is key to the Group's success. Risk management ensures a defined approach to decision making that seeks to decrease the uncertainty surrounding anticipated outcomes, balanced against the objective of creating value for Shareholders.

The Board determines the level of risk it will accept in achieving our business objectives, and this has not changed during the year. We have no appetite for risk in relation to regulatory compliance or the health, safety and welfare of our tenants, service providers and the wider community in which we work. We continue to have a moderate appetite for risk in relation to activities which drive revenues and increase financial returns for our investors.

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results.

The risk management process includes the Board's identification, consideration and assessment of those emerging risks which may impact the Group. Emerging risks are specifically covered in the risk framework, with assessments made both during the regular quarterly risk review and as potentially significant risks arise during the year. The quarterly assessment includes input from the Investment Advisor and review of information by the AIFM, prior to consideration by the Audit Committee. The impact of the Covid-19 pandemic continues to be considered a significant risk and is therefore still included within the summary of principal risks and mitigations. The impact of Brexit is now considered to be a less significant risk for the Company, as all our assets and tenants are based in the UK and there is diversity of tenants and assets.

The matrix below illustrates our assessment of the impact and the probability of the principal risks identified. The rationale for the perceived increases and decreases in the risks identified is contained in the commentary for each risk category.

Principal Risks Matrix

http://www.rns-pdf.londonstockexchange.com/rns/6870M_1-2021-9-22.pdf

Property Risk

1. *The lower-than-expected performance of the Portfolio could reduce property valuations and/or revenue,*

thereby affecting our ability to pay dividends or lead to a breach of our banking covenants

Probability:	Impact:	Mitigation
Low	Moderate An adverse change in our property valuations may lead to breach of our banking covenants. Market conditions may also reduce the revenues we earn from our property assets, which may affect our ability to pay dividends to Shareholders. A severe fall in values may result in us selling assets to repay our loan commitments, resulting in a fall in our net asset value.	Our Portfolio is 99% let (100% of supermarket assets are let) with long weighted average unexpired lease terms and an institutional-grade tenant base. All the leases contain upward-only rent reviews, 86% are inflation-linked, 11% are open market value and the rest contain fixed uplifts. These factors help maintain our asset values. We manage our activities to operate within our banking covenants and constantly monitor our covenant headroom on loan to value and interest cover. We are reviewing alternative financing arrangements to lessen any dependence on the banking sector.

2. *Our ability to source assets may be affected by competition for investment properties in the supermarket sector*

Probability:	Impact:	Mitigation
Moderate	Moderate The Company faces competition from other property investors. Competitors may have greater financial resources than the Company and a greater ability to borrow funds to acquire properties. The supermarket investment market continues to be considered a safe asset class for investors seeking long term secure cash flows which is maintaining competition for quality assets. This has led to increased demand for supermarket assets without a comparable increase in supply, which could potentially increase prices and make it more difficult to deploy capital.	The Investment Adviser has extensive contacts in the sector and we often benefit from off-market transactions. They also maintain close relationships with a number of investors and agents in the sector, giving us the best possible opportunity to secure future acquisitions for the Group. The Company has acquired assets which are anchored by supermarket properties but which also have ancillary retail on site, and these acquisitions allow the Company to access quality Supermarket assets whilst providing additional asset management opportunities. We are not exclusively reliant on acquisitions to grow the Portfolio. Our leases contain upward-only rent review clauses, which mean we can generate additional income and value from the current Portfolio. We also have the potential to add value through active asset management and we are actively exploring opportunities for all our sites. We maintain a disciplined approach to appraising and acquiring assets, engaging in detailed due diligence and do not engage in bidding wars which drive up prices in excess of underwriting.

3. *The default of one or more of our lessees would reduce revenue and may affect our ability to pay dividends*

Probability:	Impact:	Mitigation
Low	High Our focus on supermarket property means we directly rely on the performance of UK supermarket operators. Insolvencies could affect our revenues earned and property valuations.	Our investment policy requires the Group to derive at least 60% of its rental income from a Portfolio let to the largest four supermarket operators in the UK by market share. Focusing our investments on assets let to tenants with strong financial covenants and limiting exposure to smaller operators in the sector decreases the probability of a tenant default. Before investing, we undertake a thorough due diligence process with emphasis on the strength of the underlying covenant and receive a recommendation on any proposed investment from the AIFM. We select assets that have strong property fundamentals (good location, large sites with low site cover) and which should be attractive to other occupiers or have strong alternative use value should the current occupier fail.

Financial Risk

4. *Our use of floating rate debt will expose the business to underlying interest rate movements*

Probability:	Impact:	Mitigation
Low	Low Interest on the majority of our debt facilities is payable based on a margin over LIBOR. Any adverse movements in LIBOR could significantly impair our profitability and ability to pay dividends to Shareholders. The transition from LIBOR to SONIA will create increased friction and interest costs and	We have entered into interest rate derivative contracts to partially mitigate our direct exposure to movements in LIBOR, by capping our exposure to LIBOR increases. We aim to hedge prudently our LIBOR/SONIA exposure, keeping the hedging strategy under constant review in order to balance the risk of exposure to rate movements against the cost of implementing hedging instruments. We selectively utilise hedging instruments with a view to keeping the overall exposure at an acceptable level. The Investment Adviser is actively engaging with debt advisers, legal counsel and lenders to negotiate the

introduce complexity into loan arrangements. movement from LIBOR to SONIA and to implement any required changes in advance of the transition date.

5. *A lack of debt funding at appropriate rates may restrict our ability to grow*

Probability:	Impact:	Mitigation
Low	Low Without sufficient debt funding we may be unable to pursue suitable investment opportunities in line with our investment objectives. If we cannot source debt funding at appropriate rates, this will impair our ability to maintain our targeted level of dividend. The Company has had two oversubscribed capital raises during the year ended 30 June 2021 which has provided increased liquidity and enabled the continuation of the Company's growth.	<p>Before we contractually commit to buying an asset, we enter discussions with our lenders to get outline heads of terms on debt financing, which ensures that we can borrow against the asset and maintain our borrowing policy.</p> <p>The Board keeps our liquidity and gearing levels under review. We have recently broadened our lender base, entering banking facilities with a new lender. This has created new banking relationships for us with the aim of keeping lending terms as competitive as possible.</p> <p>Supermarket property has remained popular with lenders, owing to long leases and letting to single tenants with strong financial covenants and being seen as a safe asset class in times of market uncertainty. We have seen increased appetite from lenders to provide financing for future acquisitions albeit that some of our existing lenders have indicated that they are close to reaching capacity in some asset classes. The Company has engaged an external debt consultant to assist with building its financing strategy.</p>

6. *We must be able to operate within our banking covenants*

Probability:	Impact:	Mitigation
Low	Moderate If we were unable to operate within our banking covenants, this could lead to default and our bank funding being recalled.	We and the AIFM continually monitor our banking covenant compliance to ensure we have sufficient headroom and to give us early warning of any issues that may arise. We will enter into interest rate caps and swaps to mitigate the risk of interest rate rises and also invest in assets let to institutional grade covenants.

Corporate Risk

7. *There can be no guarantee that we will achieve our investment objectives*

Probability:	Impact:	Mitigation
Low	Low Our investment objectives include achieving the dividend and total returns targets. The amount of any dividends paid or total return we achieve will depend, among other things, on successfully pursuing our investment policy and the performance of our assets. Future dividends are subject to the Board's discretion and will depend, on our earnings, financial position, cash requirements, level and rate of borrowings, and available distributable reserves.	<p>The Board uses its expertise and experience to set our investment strategy and seeks external advice to underpin its decisions, for example independent asset valuations. There are complex controls and detailed due diligence arrangements in place around the acquisition of assets, designed to ensure that investments will produce the expected results. Significant changes to the Portfolio, both acquisitions and disposals, require specific Board approval.</p> <p>The Investment Adviser's significant experience in the sector should continue to provide us with access to assets that meet our investment criteria going forward.</p> <p>Rental income from our current Portfolio, coupled with our hedging policy, supports the current 5.94 pence per share dividend target. Movement in capital value is subject to market yield movements and the ability of the Investment Adviser to execute asset management strategies.</p>

8. *We are reliant on the continuance of the Investment Adviser.*

Probability:	Impact:	Mitigation
Low	Moderate We rely on the Investment Adviser's services and reputation to execute our investment strategy. Our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.	<p>A new Investment Advisory Agreement was entered into on 14 July 2021; this revised agreement provides that unless there is a default, either party may terminate by giving not less than two years written notice. This provides additional certainty for the Company. The Board keeps the performance of the Investment Adviser under continual review and undertakes a formal review at least annually.</p> <p>The interests of the Company and the Investment Adviser are aligned due to (a) key staff of the Investment Adviser having personal equity investments in the Company and (b) any fees paid to the Investment Adviser in shares of the Company are to be held for a minimum period of 12 months. The Board can pay up to 25% of the Investment Adviser fee in shares of the Company.</p> <p>In addition, the Board meets regularly with the Investment Adviser to ensure we maintain a positive working</p>

relationship and the AIFM receives and reviews regular reporting from the Investment Adviser and reports to the Board on the Investment Adviser's performance. The AIFM also reviews and makes recommendations to the Board on any investments or significant asset management initiatives proposed by the Investment Adviser.

9. *Impact of Covid-19*

Probability:	Impact:	Mitigation
Low	Moderate In addition to the immediate health and social care risks, the potential impact of the pandemic could be significant, including: the potential for reduced rental collection and a corresponding increase in bad debts, this in turn could impact on banking covenants, asset values, returns and potentially dividend. There is also the potential for reduced quality of services and support from professional advisors and service providers.	<p>The Company has not experienced any material adverse impacts from the Covid pandemic. The underlying strength of the business is the investment grade tenant base. The grocery sector has proven to be robust in the face of the wider challenges posed by the pandemic, reporting increased sales, albeit pitted against higher costs, and a rapid positive response to the changing ways in which customers shopped. This has resulted in the supermarket asset class being resilient and in high demand, underpinning asset values. All rental income has been received on time and in full.</p> <p>A range of enhanced controls and mitigations were put in place at the start of the pandemic and have continued to be implemented throughout the year covered by these financial statements. These include regular updates with the Investment Adviser, diversification of banking relationships and close monitoring of rent collection. Different working arrangements have been implemented for both the Investment Adviser's team and the outsourced property managers, which are designed to maintain safe, regular contact and dialogue with tenants, to provide the Board with clear visibility of significant issues and risks arising. The outsourced operating model offers additional resilience, as staff resource absences are more easily covered, and in most cases those providing services to the Company were already operating with remote working arrangements. The Board is constantly assessing the position, with additional mitigations possible. For example, there is the ability to drawdown under the revolving credit facility and to enter into new credit arrangements which provides comfort that were any of our tenants not pay their rent in full or on time we would have sufficient liquidity to meet our outgoing cash requirements.</p>

Taxation Risk

10. *We operate as a UK REIT and have a tax-efficient corporate structure, with advantageous consequences for UK Shareholders. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to Shareholders*

Probability:	Impact:	Mitigation
Low	Moderate If the Company fails to remain a REIT for UK tax purposes, our profits and gains will be subject to UK corporation tax.	The Board takes direct responsibility for ensuring we adhere to the UK REIT regime by monitoring the REIT compliance. The Board has also engaged third-party tax advisers to help monitor REIT compliance requirements and the AIFM also monitors compliance by the Company with the REIT regime.

Political Risk

11. *European Union exit without EU trade deal ("Brexit")*

Probability:	Impact:	Mitigation
Rare	Low The vote in June 2016 to leave the European Union resulted in political and economic uncertainty. However, a trade deal was agreed with the EU during 2020 which materially reduced this uncertainty and therefore this is no longer considered to be a principal risk for the Group.	The Group operates with a focus on the UK supermarket sector. It is currently well positioned with long term secure leases to institutional grade tenants with strong balance sheets and therefore well placed to withstand any downturn in the UK economy. Whilst there continues to be a level of supply chain disruption, the major supermarket operators used the Covid-19 crisis to test the resilience of their supply chains and had been planning for Brexit since 2016. This is no longer considered to be a principal risk for the Group.

Market Price Risk

12. Shareholders may not be able to realise their shares at a price above or the same as they paid for the shares or at all

Probability:	Impact:	Mitigation
Moderate	Moderate Although the Company's ordinary shares have to date traded in a relatively narrow range closely related to the price at which they were issued, this is largely a function of supply and demand for the ordinary shares in the market and cannot therefore be controlled by the Board. Shareholders who wish to sell their ordinary shares may be obliged to sell their ordinary shares at a significant discount or may not be able to sell them at all.	The Company may seek to address any significant discount to NTA at which its ordinary shares may be trading by purchasing its own ordinary shares in the market on an ad hoc basis. The Directors have the authority to make market purchases of up to 14.99 per cent of the ordinary shares in issue as at IPO; being 1.85% of the total shares in issue as at 30 June 2021. ordinary shares will be repurchased only at prices below the prevailing NAV per ordinary share, which should have the effect of increasing the NAV per ordinary share for remaining Shareholders. It is intended that a renewal of the authority to make market purchases will be sought from Shareholders at each Annual General Meeting of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board. Investors should note that the repurchase of ordinary shares is entirely at the discretion of the Board and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions or as to the proportion of ordinary shares that may be repurchased.

Going concern

In light of the continuing significant impact of Covid-19 on the UK economy, and the retail sector, the Directors have continued to place significant focus on the appropriateness of adopting the going concern basis in preparing the Group's and Company's financial statements for the year ended 30 June 2021. In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

The Board regularly monitors the Group's ability to continue as a going concern. Included in the information reviewed at quarterly Board meetings are summaries of the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants. Based on this information, the Directors are satisfied that the Group and Company are able to continue in business for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements, and therefore have adopted the going concern basis in the preparation of these financial statements.

During the period covered by this report, the Group has raised a total of £253 million from the issue of equity shares and a further £248.6 million under the various banking facilities. All financial covenants have been met to date; there is significant headroom in our covenants including property values needing to fall by 40% for a breach of covenants to occur.

Post year end the Group increased the Wells Fargo facility by a further £61.3 million, the Deka Bank facility by £20 million and the HSBC facility by £10 million. Further details are set out in the notes to the financial statements.

The Group generated net cash flow from operating activities in the period of £42.3 million, with its cash balances at 30 June 2021 totalling £19.6 million and available debt facilities at 30 June 2021 of £200.1m. The Group had no capital commitments or contingent liabilities as at the balance sheet date. 100% of contractual grocery rent for the Year has been collected on time and in full.

The Group benefits from a secure income stream from its property assets that are let to tenants with excellent covenant strength, and are critical to the UK grocery infrastructure, under long leases that are subject to upward only rent reviews. The WAULT at the year-end was 15 years (2020: 16 years).

As a result, the Directors believe that the Group is well placed to manage its financing and other business risks and that the Group will remain viable, continuing to operate and meeting its liabilities as they fall due over the assessment period. The Directors are therefore of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

Assessment of viability

The period over which the Directors consider it feasible and appropriate to report on the Group's viability is the five-year period to 30 June 2026. This period has been selected because it is the period that is used for the Group's medium-term business plans and individual asset performance forecasts. The assumptions underpinning these forecast cash flows and covenant compliance forecasts were sensitised to explore the resilience of the Group to the potential impact of the Group's significant risks, or a combination of those risks. The principal risks on pages 37 to 46 summarise those matters that could prevent the Group from delivering on its strategy. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur. The Directors paid particular attention to the risk of a deterioration in economic outlook which could impact property fundamentals, including investor and occupier demand which would have a negative impact on valuations, and give rise to a reduction in the availability of finance.

Covid -19: In light of the Covid-19 pandemic, the Board also paid attention to the impact of either a reduction in availability of funds under the existing RCF or a delay to the receipt of rental incomes. However, the full facility amount continued to be available under the RCF and all rental income was received on time and in full. The additional risk from the pandemic was therefore not considered to be material to the Group.

The remaining principal risks, whilst having an impact on the Group's business model, are not considered by the Directors to have a reasonable likelihood of impacting the Group's viability over the five-year period to 30 June 2026.

The sensitivities performed were designed to be severe but plausible; and to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks:

Tenant risk: Key assumptions including the failure of tenants (or guarantors where relevant) to continue to comply with their rental obligations over the term of their leases are deemed to be low. If this were to happen we expect to be able to mitigate the risk by re-leasing the property thus avoiding any material long term loss of rental income.

Borrowing risk: The Group continues to comply with all relevant loan covenants. The Group was able to refinance the £140.0 million RCF falling due in August 2022 on acceptable terms. The Group does not have a significant refinancing event occurring until July 2023. Financing is arranged in advance of expected requirements and the Directors have reasonable confidence that additional or replacement debt facilities will be put in place at the point of refinancing.

Liquidity risk: The Group continues to generate sufficient cash to cover its costs while retaining the ability to make distributions.

Viability Statement

The Board has assessed the prospects of the Group over the five years from the balance sheet date to 30 June 2026, which is the period covered by the Group's longer term financial projections. The Board considers five years to be an appropriate forecast period since, although the Group's contractual income extends beyond five years, the availability of most finance and market uncertainty reduces the overall reliability of forecast performance over a longer period.

The Board considers the resilience of projected liquidity, as well as compliance with secured debt covenants and UK REIT rules, under a range of RPI and property valuation assumptions.

The principal risks and the key assumptions that were relevant to this assessment are as follows:

Risk	Assumption
Tenant risk	Tenants (or guarantors where relevant) fail to comply with their rental obligations over the term of their leases and a key tenant suffers an insolvency event over the term of the review.
Borrowing risk	The Group continues to comply with all relevant loan covenants. The Group was able to refinance the £100.0 million RCF falling due in August 2022 on acceptable terms. The Group is able to refinance the £59.4 million Term Loans falling due in July 2023 on acceptable terms.
Liquidity risk	The Group continues to generate sufficient cash to cover its costs while retaining the ability to make distributions.

Based on the work performed, the Board has a reasonable expectation that the Group will be able to continue in business over the five year period of its assessment.

Other disclosures

Disclosure in relation to the Company's business model and strategy have been included within the Investment Adviser's report on pages 11 to 19 within this announcement. Disclosures in relation to the main industry trends and factors that are likely to affect the future performance and position of the business have been included within Our Market on pages 20 to 25. Disclosures in relation to environmental and social issues have been included within ESG section on pages 28 to 36. Employee diversity disclosures have not been included as the Directors' do not consider these to be relevant to the Company.

Key Performance Indicators (KPIs)

The KPIs and EPRA performance measures used by the Group in assessing its strategic progress have been included on pages 9 to 10.

SECTION 172(1) STATEMENT

The Directors consider that in conducting the business of the Company over the course of the year ended 30 June 2021, they have complied with Section 172(1) of the Companies Act 2006 ("the Act"). The Company is externally managed and has no employees. Its key stakeholders are considered to be its Shareholders, the Investment Adviser and other suppliers, lenders, tenants and transaction counterparties. The Board is of the opinion that its conduct culminated from decisions made in good faith to promote the success of the Company for the benefit of all of its members, having regard to the impact of decisions on the following matters specified in Section 172 of the Companies Act:

- A. The likely consequences of any decision in the long term
- B. The interests of the Company's employees
- C. The need to foster the Company's business relationships with suppliers, customers and others
- D. The impact of the Company's operations on the community and the environment
- E. The desirability of the Company maintaining a reputation for high standards of business conduct
- F. The need to act fairly as between members of the Company

How the Directors ensure long term success

The strategy of the Company was initially laid out in the Prospectus prepared for the Placing and subsequent listing on the Specialist Fund Segment of the London Stock Exchange in July 2017 which was approved by the Board at that time, and has subsequently been confirmed in numerous Prospectuses since that date, all duly approved by the Board. In running the Company, any deviation from or amendment to that strategy is subject to Board and, if necessary, Shareholder approval. At least annually, the Board considers a business plan and budget for the delivery of its strategic objectives. Through regular engagement with its stakeholder groups, the Board aims to gain a rounded and balanced understanding of the impact of its decisions. In the main, that information is gathered in the first instance by the Investment Adviser and communicated to the Board in its regular quarterly meetings and otherwise as required.

A. The likely consequences of any decision in the long term

The key strategic decisions for the Board are those relating to asset acquisitions, financing, disposals and distributions, and where these types of transaction, or any other material transaction or decision, is considered, the Board has regard to its wider obligations under Section 172 of the Act. As such these strategic discussions involve careful considerations of the longer-term consequences of any decisions and their implications on Shareholders and other stakeholders and the risk to the long term success of the business, and are supported by detailed cash flow projections based on various scenarios, which include: availability of funding; borrowing; as well as the wider economic conditions and market performance. Key decisions made by the Board in the year include the acquisition of 20 Supermarket assets, the

declaration of the quarterly dividend and the raising of additional capital. Prior to making any key decision the Board is provided with a comprehensive pack of information, which includes advice and reports from the Investment Adviser, supported where necessary by input from legal counsel, property agents and the Company's broker. The Board fully interrogates the information provided and engages in debate and challenge around any proposed decision. Once the Board has satisfied itself that the proposed action is in the best interest of the Company, having regard to the longer-term impact, it gives approval to proceed.

B. The interests of the company's employees

While the Group has no employees as a result of its external management structure, the Directors have regard to the interests of the individuals who are responsible for delivery of the investment advisory services to the Company to the extent that they are able to. The Investment Adviser brings a depth of experience in the Supermarket Property sector. This gives the Company a competitive advantage through its knowledge, specialist focus and network of industry and occupier contacts. The Investment Adviser employs a range of professionals who have a crucial role in the performance and long-term success of the Company. There have been no strategic initiatives or transactions in the year that were considered to have a direct bearing on the employees of the Investment Adviser. The Investment Adviser engaged in a number of employee focused initiatives during the year, these included undertaking an employee survey and risk assessment in light of the pandemic, initiating flexible home working and frequent team and one to one engagement and hosting virtual employee social events. The employees of the Investment Adviser were included in the materiality assessment carried out by the Company following the financial year end. The Board does not have direct responsibility for any employees.

C. The need to foster the company's business relationships with suppliers, customers, Investment Adviser and others

The Company's principal suppliers, customers and counterparties are the Investment Adviser, professional firms such as lenders, property agents, accounting and law firms, tenants with which we have longstanding relationships and transaction counterparties which are generally large and sophisticated businesses or institutions. The Investment Adviser was appointed in July 2017 and the performance of the Investment Adviser is kept under continual review as set out on page 81 of the Annual Report. The Investment Advisory Agreement was renewed during July 2021, in advance of the expiry of the initial agreement in July 2022. There is frequent direct engagement between the Investment Advisory team and the Board. Most professional firms and advisers acting for the business have had relationships with the Company and the Investment Adviser since the IPO in July 2017. Where material counterparties are new to the business, checks, including anti money laundering checks, are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. In addition, there is regular engagement between the Investment Adviser and tenants, on a range of financial and sustainability issues. The Board is consistently apprised of the outcome of those engagements, some of which are detailed in the ESG report on pages 28 to 36.

The Company also reviews the compliance of all material counterparties with relevant laws and regulations such as the Criminal Finances Act 2017. All Group entities have a policy of paying suppliers in accordance with pre agreed terms as reported in the Supplier Payment Policies below:

Supplier payment policies

Neither the Company nor any of its subsidiary undertakings exceeds the thresholds for reporting payment practices and performance.

The following voluntary disclosures relate to the Group:

- the Group does not have standard or maximum payment terms, but seeks to settle supplier invoices in accordance with pre-agreed terms;
- invoices may be submitted electronically but as the volume of payments is relatively low, the Group does not operate electronic tracking for suppliers;
- the Group does not offer supply chain finance;
- there are no arrangements for participation on supplier lists and no charges for being on such a list;
- the Group is not a member of a payment code of conduct.

D. The impact of the company's operations on the community and the environment

The interaction of Group entities with the wider community and its impact on the environment is relatively limited as a result of the Group's business operations being entirely related to investment in properties let on long leases, where the operation of the properties, their upkeep and environmental impact is the responsibility of the occupational tenants. The Board's approach to sustainability is explained on pages 28 and 36. The Board and the Investment Adviser have committed to limiting the impact of the business on the environment where possible and engagement with tenants to seek to improve the ESG credentials of the properties owned by the Company. The Board has committed to implementation of a wider ESG strategy engaging external consultants and extending the Audit Committee terms of reference to incorporate ESG responsibility, the first stage of which has been completed and is detailed extensively in the ESG report. In particular, there have been updates to the terms of reference of the Audit Committee, greater integration of ESG related factors into property evaluation, and updates to the Board on the evolution of ESG practice. Over the period ahead, the Group intends to put a data framework around the positive steps already taken, which will allow for the tracking and improvement of performance.

Details of the ESG policy and strategy are included on pages 28 to 36.

E. The desirability of the company maintaining a reputation for high standards of business conduct

The Board is mindful that the ability of the Company to continue to conduct its investment business and to finance its activities depends in part on the reputation of the Board, the Manager and Investment Advisory Team. The risk of falling short of the high standards expected and thereby risking business reputation is included in the Board's review of the Company's risk register, which is conducted at least annually. Principal risks and uncertainties facing the business are summarised on pages 38 to 47.

F. The need to act fairly as between members of the company.

The Company's Shareholders are an incredibly important stakeholder group. The Board oversees the Investment Adviser's formal investor relations programme which is supported by the Company's brokers and financial PR advisers. The Board aims to be open with Shareholders and available to them, subject to compliance with relevant securities laws. The investor relations programme is designed to promote formal engagement with major investors, generally defined as those holding more than approximately 1% of the shares in the Company. Major investors are offered meetings after each results announcement. The Board and the Investment Adviser also engage with major investors, other investors who may request meetings and with potential new investors on an ad hoc basis throughout the year including where prompted by Company announcements. All formal Shareholder presentations are made available on the Company's

website and remain available to any interested party. The whole Board attends the Company's Annual General Meeting. The Company has a single class of shares in issue with all members of the Company having equal rights. The investment strategy of the Group is focussed on medium to long term returns and as such the long term is firmly within the sights of the Board when all material decisions are made.

The Strategic Report, which comprises the Chairman's Statement, Q&A with Justin King, Key Performance Indicators, EPRA Performance Indicators, Investment Advisor's Report, Our Market, Implementing the Group's Investment Policy, ESG Report, Our Principal Risks and the S.172(1) Statement in the Annual Report was signed on behalf of the Board on 22 September 2021.

Nick Hewson
Chairman
22 September 2021

DIRECTORS' REPORT

The Directors present their report together with the financial information for the year ended 30 June 2021.

Results and dividends

The results for the year are set out in the attached financial statements. It is the policy of the Board to declare and pay dividends as quarterly interim dividends. During the year the company declared interim dividends amounting to aggregate 5.9 pence per share (2020: 5.8 pence per share). The following dividends were declared during the year and subsequently:

Date declared	Amount per share (pence)	Date paid
8 July 2020	1.460	7 August 2020
8 October 2020	1.465	7 November 2020
8 January 2021	1.465	26 February 2021
8 April 2021	1.465	21 May 2021
8 July 2021	1.465	20 August 2021

Dividend policy

Subject to market conditions and performance, financial position and outlook, it is the Directors' intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The Company intends to grow the dividend progressively through investment in supermarket properties with upward-only, predominantly inflation-protected, long-term lease agreements.

Principal activities and status

The Company is registered as a public limited company under the Companies Act 2006. It is an Investment Company as defined by Section 833 of the Companies Act 2006 and has been established as a closed-ended investment company with an indefinite life. The Company has a single class of shares in issue which are traded on the Specialist Fund segment of the London Stock Exchange's Main Market. The Group has entered the Real Estate Investment Trust (REIT) regime for the purposes of UK taxation.

The Company is a member of the Association of Investment Companies (the "AIC").

Strategy and investment policy

The strategy and investment objectives of the Group are set out in the Strategic Report on pages 27 to 28.

Risk management and internal control

The Board is responsible for financial reporting and controls, including the approval of the Annual Report and Accounts, the dividend policy, any significant changes in accounting policies or practices, and treasury policies including the use of derivative financial instruments. During the year the Board has carried out a robust assessment of the emerging and principal risks facing the Group and the disclosures, as described in the Strategic Report on pages 38 to 47, that describe those risks, the procedures in place to identify them, and explain how they are being managed or mitigated.

In light of the Group's current position and principal risks, the Board has assessed the prospects of the Group for a period of 12 months from the date of this Annual Report, reviewing the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's future performance under various scenarios. The Board has concluded there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over that period. The Board has also assessed the prospects of the Group over a longer period than the going concern review and has a reasonable expectation that the Group will be able to continue in business over the five year period examined in that assessment.

The Board is also responsible for the internal controls of the Group, including operational and compliance controls and risk management systems, which are documented in a Board memorandum. We have contractually delegated responsibility for administrative and secretarial services to the Administrator ("JTC") and accounting services to the Investment Adviser. Both JTC and the Investment Adviser have their own internal control systems relating to these matters. The Board and the Investment Adviser have together reviewed all financial performance and results notifications. Non-financial internal controls include the systems of operational and compliance controls maintained by JTC. As with any risk management system, the Group's internal control framework is designed to manage risk but cannot give absolute assurance that there will never be any material misstatement or loss. The Board has reviewed the risk management and internal control framework in the year and believes it to be working effectively.

The Board has considered the appropriateness of establishing an internal audit function and, having regard to the relatively simple nature of the Group's operations and the likely cost of such a function, has concluded that it is not necessary at this stage.

The Board meets at least every quarter to review the Group's performance against its strategic aims, objectives, business plans and budgets and ensures that any corrective action considered necessary is taken. Additional meetings are held as required to deal with the business of the Group in a timely manner.

Directors are expected to attend all meetings of the Board and all meetings of those committees on which they sit, as well as the Annual General Meeting (the "AGM"). Meetings called outside the scheduled quarterly Board meetings may need to be convened at relatively short notice and therefore at times when not every Director is available. Every meeting during the year has however been correctly convened with an appropriate quorum.

Details of Directors' attendance at each of the scheduled Board and Committee meetings during the year are set out below.

Director	Audit Committee	Remuneration Committee	Nomination Committee	Quarterly Board
Nick Hewson	3/3*	1/1	1/1	4/4
Vince Prior	3/3	1/1	1/1	4/4
Jon Austen	3/3	1/1	1/1	4/4
Cathryn Vanderspar	3/3*	1/1	1/1	4/4

* Attendance by invitation

All Directors in office at the time attended the Company's AGM held on 11 November 2020.

Investment Advisory Agreement

The Board as a whole is responsible for the review of the performance and terms of engagement with the Investment Advisor.

A revised Investment Advisory Agreement was entered into in July 2021, prior to the expiry of the initial agreement in July 2022. The terms of the revised agreement have not materially changed other than the extension of the notice period to a rolling two year term and the introduction of a new lower fee tier when NAV exceeds £2 billion. In reviewing the terms of the Investment Advisory Agreement (material terms of which are summarised in note 27 to the financial statements) and the fee arrangements within it, the Board has considered the extent to which the outcome for Shareholders and management is consistent with the provisions of the UK Corporate Governance Code.

Specifically:

- Clarity and transparency is achieved by way of the structure of the Investment Advisory Agreement which compensates the Investment Adviser through the advisory fee to cover all overheads and running costs relating to the Group and which provides strong Shareholder alignment through the payment of the semi-annual fees, which are to be used to purchase further shares in the Company.
- The structure of and rationale behind the Investment Adviser's fees are explained in note 27 to the financial statements and are designed to be simple and not to require subjectivity in their calculation. Given the simple arithmetic underlying the fee calculations, the range of potential outcomes is straightforward to calculate and not subject to discretion. While the Code recommends oversight of the level of reward to individual team members, this is not appropriate in the case of an externally managed structure where the Independent Directors do not control the workforce.

The Board has sought and received confirmation from the Investment Adviser that it complies with all governance requirements relevant to it. Such confirmation will be sought at least annually.

Directors

All Directors retired and were re-elected at the AGM on 7 November 2020. In accordance with the Articles of Association, all Directors are required to retire and seek re-election at least every three years. Although not required by the Company's Articles of Association, the Company is choosing to comply voluntarily with the provision of the AIC Code requiring all Directors to be subject to annual election. All Directors retire at each AGM and those eligible and wishing to serve again offer themselves for election.

The Company maintains £20 million of Directors' and Officers' Liability Insurance cover for the benefit of the Directors, which was in place throughout the year. The level of cover was increased to £25m on 19 July 2021 and continues in effect at the date of this report.

Directors' interests

The beneficial interests of the Directors and their families in the ordinary shares of the Company as at 30 June 2021 were as follows:

	Number of shares	Percentage of issued share capital
Nick Hewson	573,575	0.071%
Jon Austen	182,367	0.022%
Vince Prior	114,886	0.014%
Cathryn Vanderspar	57,515	0.007%

Significant shareholdings

As at 30 June 2021 the Directors have been notified that the following Shareholders have a disclosable interest of 3% or more in the ordinary shares of the Company:

	Number of shares	Percentage of issued share capital
Close Brothers Asset Management	52,065,873	6.42%
Quilter Cheviot Investment Management	49,551,243	6.11%
Cazenove Capital Management	32,175,489	3.97%
Aberdeen Standard Investments	30,993,145	3.82%
Smith & Williamson Wealth Management	30,862,421	3.81%
Waverton Investment Management	29,220,073	3.60%
West Yorkshire PF	27,266,291	3.36%
Hargreaves Lansdown, stockbrokers (EO)	26,453,285	3.26%
BMO Global Asset Management (UK)	24,798,369	3.06%

Political contributions

The Group made no political contributions during the year (2020: none).

Energy and Carbon reporting

The Board has considered the requirement to disclose the Company's measured carbon emissions sources under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

During the year ended 30 June 2021:

- we performed extensive due diligence on the opportunity to install on-site decarbonised energy producing plant across our estate. To date we have commenced District Network Operator (DNO) applications for the installation of extensive rooftop photovoltaic panels covering over 70% of the total GIA of our estate. Through green energy investment, we not only generate an income producing asset but also reduce costs for our tenants whilst also assisting their transition to a lower carbon emission future
- Any emissions from the Group's properties have been the tenant's responsibility rather than the Group's, so the principle of operational control has been applied
- Any emissions that are either produced from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Investment Adviser and AIFM's responsibility
- The Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting
- As such, the Board believes that the Company has no reportable emissions for the year ended 30 June 2021 (2020: none)

Employees

The Group has no employees and therefore no employees share scheme or policies for the employment of disabled persons or employee engagement.

Post balance sheet events

- In August 2021 the Group acquired an M&S and an Aldi in West Derby, Liverpool for £10.2 million (excluding acquisition cost). The M&S store has a 10 years unexpired lease term and five-yearly, upward-only, open market rent reviews. The Aldi store has a 15 year unexpired lease term and five-yearly, upwards-only, 2.5% fixed rent reviews compounded annually
- In September 2021 the Group acquired an Aldi in Oldham, Manchester for £5.6 million (excluding acquisition costs) with 10 years unexpired lease term and five-yearly, upwards-only, 2% fixed rent reviews compounded annually
- In September 2021 the Group acquired a Tesco in Prescot, Liverpool for £50.0 million (excluding acquisition costs) with 15 years unexpired lease term and annual, upwards-only, CPI-linked rent reviews
- In September 2021 the Group acquired a Morrisons in Workington, Cumbria for £28.9 million (excluding acquisition costs) with 17 years unexpired lease term and five-yearly, upwards-only, CPI-linked rent reviews
- In August 2020 the Group increased its Deka Facility with a new £20 million tranche, upsizing its existing £76.6 million secured term loan for the remaining three-year term. The new facility has a fixed interest rate of 1.7%
- In September 2021 the Group announced a one year extension alongside a £10.0 million increase to its Revolving Credit Facility ("RCF") with HSBC. The existing RCF with HSBC has been extended by a year to give a remaining term of two years. This facility has upsized by £10.0 million to £150.0 million, priced at a margin of 1.75% over SONIA
- In September 2021 the Group announced a £61.3 million upside of its Revolving Credit Facility ("RCF") with Wells Fargo, utilising the £100 million accordion option, exercisable at any time over the term of the facility. This secured, interest-only, RCF has a remaining term of four-years and two further one-year extension options. The new tranche has a margin of 1.40% above SONIA
- Dividend target for the FY 2022 of 5.94 pence per share increased by 1.4% in line with the average increase in passing rents for the year

Other disclosures

Disclosures of financial risk management objectives and policies and exposure to financial risks are included in note 21 to the financial statements. Details of future developments are included in the Strategic Report. Details of the Company's capital structure is included within the financial statements in note 22.

Disclosure of information to auditor

All of the Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

Auditor

BDO LLP was appointed as auditor by the Directors in June 2017 and was last re-appointed as auditor by the Company's Shareholders at the AGM held on 7 November 2020. BDO LLP have expressed their willingness to continue as auditor for the financial year ending 30 June 2022. A resolution to appoint BDO LLP as auditor of the Company will be proposed at the forthcoming AGM.

Signed by order of the Board on 22 September 2021.

Nick Hewson

Chairman

22 September 2021

ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT

Background

The Alternative Investment Fund Manager's Directive (the "AIFMD") came into force on 22 July 2013. The objective of the AIFMD was to ensure a common regulatory regime for funds marketed in or into the EU which are not regulated under the UCITS regime. This was primarily for investors' protection and also to enable European regulators to obtain adequate information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

The AIFM is a non-EU AIFM, although the Company is currently an EU Alternative Investment Fund (an "AIF") and the Company is marketed primarily into the UK, but also into the EU. Although the AIFM is a non-EU AIFM, so the depositary rules in Article 21 of the AIFMD do not apply, the transparency requirements of Articles 22 (Annual report)

and 23 (Disclosure to investors) of the AIFMD do apply to the AIFM and therefore to the Company. In compliance with those articles, the following information is provided to the Company's Shareholders by the AIFM.

1. Material Changes in the Disclosures to Investors

During the financial year under review, there were no material changes to the information required to be made available to investors before they invest in the Company under Article 23 of the AIFMD from that information set out in the Company's prospectus dated 17 September, 2020, save as updated in the supplementary prospectus dated 4 March, 2021 and as disclosed below and in certain sections of the Strategic Report, those being the Chairman's Statement, Investment Adviser's Report, Our Market, Implementing the Group's Investment Policy, ESG Report and Our Principal Risks sections in this Annual Financial Report.

2. Risks and Risk Management Policy

The current principal risks facing the Company and the main features of the risk management systems employed by AIFM and the Company to manage those risks are set out in the Strategic Report, the Directors' Report and in notes 19 and 21 to the financial statements.

3. Leverage and borrowing

The Company is entitled to employ leverage in accordance with its investment policy and as described in the sections entitled "Financing and Hedging" in the Investment Adviser's Report and in notes 19 to 21 and 28 to the financial statements. Other than as disclosed therein, there were no changes in the Company's borrowing powers and policies.

4. Environmental, Social and Governance ("ESG") Issues and Regulation (EU) 2019/2099 on Sustainability-Related Disclosures in the Financial Services Sector (the "SFDR")

As a member of the JTC group of Companies, the AIFM's ultimate beneficial owner and controlling party is JTC Plc, a Jersey-incorporated company whose shares have been admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange's Main Market for Listed Securities (mnemonic JTC LN, LEI 213800DVUG4KLF2ASK33). In the conduct of its own affairs, the AIFM is committed to best practice in relation to ESG matters and has therefore adopted JTC Plc's ESG framework (the "ESG Framework") and a copy of the ESG Framework can be viewed on the AIFM's website at <https://www.jtcgroup.com/wp-content/themes/jtcgroup/dist/img/review-2019/pdfs/esg.pdf>.

From the perspective of the SFDR, although the AIFM is a non-EU AIFM, the Company is marketed into the EU, so that the AIFM is required to comply with the SFDR in so far as it applies to the Company and the AIFM's management of the Company, which the Company has classified as being within the scope of Article 6 of the SFDR.

The AIFM and Atrato Capital Limited ("Atrato") as the Company's alternative investment fund manager and investment advisor respectively do consider ESG matters in their respective capacities, as explained in SUPR's prospectus dated 17 September, 2020, a copy of which can be found at <https://www.jtcgroup.com/wp-content/uploads/2021/03/2020-09-17-PROSPECTUS.pdf>, as updated by SUPR's supplementary prospectus dated 4 March, 2021, a copy of which can be found at <https://www.jtcgroup.com/wp-content/uploads/2021/03/2021-03-04-PROSPECTUS-SUPPLEMENTARY.pdf>.

Since the publication of those documents, the AIFM, Atrato and the Company have sought to enhance their collective approach to ESG matters and detailed reporting on (a) enhancements made to each party's policies, procedures and operational practices and (b) our collective future intentions and aspirations is included in the report on Sustainability and ESG matters included at pages 29 to 37 of this annual financial report.

The AIFM also has a comprehensive risk matrix (the "Matrix"), which is used to identify, monitor and manage material risks to which the Company is exposed, including ESG and sustainability risks, the latter being an environmental, social or governance event or condition that, if it occurred, could cause an actual or a potential material negative impact on the value of an investment. We also consider sustainability factors, those being environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

As at the date of this report, the AIFM is intending in the longer term to become a signatory of the U.N. Principles for Responsible Investment, which define responsible investment as "a strategy and practice to incorporate environmental, social and governance factors in investment decisions and active ownership."

The AIFM is also cognizant of the announcement published by H.M. Treasury in the UK of its intention to make mandatory by 2025 disclosures aligned with the recommendations of the Task Force on Climate-Related Disclosures, with a significant proportion of disclosures mandatory by 2023. The AIFM also notes the roadmap and interim report of the UK's Joint Government-Regulator TCFD Taskforce published by H.M. Treasury on 9 November, 2020. The AIFM continues to monitor developments and intends to comply with the UK's regime to the extent either mandatory or desirable as a matter of best practice.

5. Remuneration of the AIFM's Directors and Employees

During the financial year under review, no separate remuneration was paid by the AIFM to its executive Directors, James Tracey, Graham Taylor and Gregory Kok, because they were all employees of the JTC group of companies, of which the AIFM forms part. Matthew Tostevin is a Non-Executive Director and is paid a fixed fee of £10,000 for acting as a director, attendance at all Board meetings and work performed as a Director of the Company in the ordinary course of business. Subject to the prior approval of the Board of Directors on each occasion, Mr Tostevin is paid additional remuneration on a time spent basis for services rendered to the Company which are not in the ordinary course of business. Other than the Directors, the AIFM has no employees. The Company has no agreement to pay any carried interest to the AIFM.

6. Remuneration of the AIFM Payable by the Company

The AIFM was during the period under review paid a fee of 0.04% *per annum* of the net asset value of the Company, subject to a minimum of £50,000 *per annum*, such fee being payable quarterly in arrears. The total fees paid to the AIFM during the year under review were £110,966.

JTC Global AIFM Solutions Limited
Alternative Investment Fund Manager
22 September, 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Year to 30 June 2021	Year to 30 June 2020
Notes	£'000	£'000

Gross rental income	3	48,156	26,352
Service charge income	3	830	315
Service charge expense	4	(1,044)	(315)
Net Rental Income		47,942	26,352
Administrative and other expenses	5	(9,262)	(5,184)
Operating profit before changes in fair value of investment properties and share of income from joint venture		38,680	21,168
Changes in fair values of investment properties and associated rent guarantees	12	36,288	13,052
Share of income from joint venture	14	15,506	486
Negative goodwill	14	-	2,960
Total share of income from joint venture		15,506	3,446
Operating profit		90,474	37,666
Finance expense	8	(8,518)	(4,903)
Profit before taxation		81,956	32,763
Tax charge for the year	9	-	-
Profit for the year		81,956	32,763
<i>Items to be reclassified to profit or loss in subsequent periods</i>			
Fair value movements in interest rate derivatives	19	1,569	(818)
Total comprehensive income for the year		83,525	31,945
Total comprehensive income for the year attributable to ordinary Shareholders		83,525	31,945
Earnings per share - basic and diluted	10	12.6 pence	9.8 pence

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets			
Property, plant and equipment		129	-
Investment properties	12	1,148,380	539,410
Investment in joint ventures	14	130,321	56,081
Contract fulfilment asset	16	85	-
Interest rate derivatives	19	763	-
Total non-current assets		1,279,678	595,491
Current assets			
Financial assets held at fair value through profit and loss	15	237	-
Trade and other receivables	17	3,140	1,702
Cash and cash equivalents		19,579	20,353
Total current assets		22,956	22,055
Total assets		1,302,634	617,546
Non-current liabilities			
Bank borrowings	20	409,684	126,791
Interest rate derivatives	19	1,210	1,988
Total non-current liabilities		410,894	128,779
Current liabilities			
Deferred rental income		12,061	5,203
Trade and other payables	18	8,369	6,403
Total current liabilities		20,430	11,606
Total liabilities		431,324	140,385
Net assets		871,310	477,161
Equity			

Share capital	22	8,107	4,735
Share premium reserve	22	778,859	436,126
Capital reduction reserve	22	-	-
Retained earnings		84,796	38,321
Cash flow hedge reserve		(452)	(2,021)
Total equity		871,310	477,161
Net asset value per share - basic and diluted	26	108 pence	101 pence
EPRA NTA per share	26	108 pence	101 pence

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Share capital £'000	Share premium reserve £'000	Cash flow hedge reserve £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
As at 1 July 2020	4,735	436,126	(2,021)	-	38,321	477,161
<i>Comprehensive income for the year</i>						
Profit for the year	-	-	-	-	81,956	81,956
Other comprehensive income	-	-	1,569	-	-	1,569
Total comprehensive income for the year	-	-	1,569	-	81,956	83,525
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the year	3,372	350,132	-	-	-	353,504
Share issue costs	-	(7,399)	-	-	-	(7,399)
Interim dividends paid	-	-	-	-	(35,481)	(35,481)
As at 30 June 2021	8,107	778,859	(452)	-	84,796	871,310

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Share capital £'000	Share premium reserve £'000	Cash flow hedge reserve £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
As at 1 July 2019	2,398	203,672	(1,203)	14,391	11,212	230,470
<i>Comprehensive income for the year</i>						
Profit for the year	-	-	-	-	32,763	32,763
Other comprehensive income	-	-	(818)	-	-	(818)
Total comprehensive income for the year	-	-	(818)	-	32,763	31,945
<i>Transactions with owners</i>						
Ordinary Shares issued at a premium during the year	2,337	237,483	-	-	-	239,820
Share issue costs	-	(5,029)	-	-	-	(5,029)
Interim dividends paid	-	-	-	(14,391)	(5,654)	(20,045)
As at 30 June 2020	4,735	436,126	(2,021)	-	38,321	477,161

CONSOLIDATED CASH FLOW

For the year ended 30 June 2021

	Notes	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Operating activities			

Profit for the year (attributable to ordinary Shareholders)		81,956	32,763
Adjustments for:			
Changes in fair value of investment properties and associated rent guarantees	12	(36,288)	(13,052)
Movement in rent smoothing adjustments	3	(1,998)	(865)
Finance expense	8	8,518	4,903
Negative goodwill arising on acquisition of interest in Joint venture		-	(2,960)
Share of income from joint venture	14	(15,506)	(486)
Cash flows from operating activities before changes in working capital		36,682	20,303
(Increase)/decrease in trade and other receivables		(1,437)	1,819
Decrease in rent guarantee receivables		185	-
Increase in deferred rental income		6,858	1,659
Corporation tax paid		-	(245)
Increase in trade and other payables		516	3,411
Net cash flows from operating activities		42,804	26,947
Investing activities			
Acquisition of contract fulfilment assets	16	(85)	-
Acquisition of investment properties	12	(541,210)	(148,825)
Acquisition of financial assets held at fair value	15	(766)	-
Investment in joint venture	14	(58,734)	(52,635)
Capitalised acquisition costs		(28,752)	(8,438)
Net cash flows used in investing activities		(629,547)	(209,898)
Financing activities			
Proceeds from issue of Ordinary Share Capital	22	352,956	239,820
Costs of share issues	22	(7,399)	(5,029)
Bank borrowings drawn	21	582,961	141,510
Bank borrowings repaid	21	(298,300)	(157,744)
Loan arrangement fees paid	21	(3,211)	(1,270)
Bank interest paid	21	(5,578)	(4,116)
Bank commitment fees paid	21	(527)	(165)
Dividends paid to equity holders	11	(34,933)	(19,600)
Net cash flows from financing activities		585,969	193,406
Net movement in cash and cash equivalents in the year		(774)	10,455
Cash and cash equivalents at the beginning of the year		20,353	9,898
Cash and cash equivalents at the end of the year		19,579	20,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

General information

Supermarket Income REIT plc (the "Company") is a company registered in England and Wales with its registered office at The Scalpel 18th Floor, 52 Lime Street, London, United Kingdom EC3M 7AF. The principal activity of the Company and its subsidiaries (the "Group") is to provide its Shareholders with an attractive level of income together with the potential for capital growth by investing in a diversified portfolio of supermarket real estate assets in the UK.

At 30 June 2021 the Group comprised the Company and its wholly owned subsidiaries as set out in Note 13.

Basis of preparation

The consolidated financial information set out in this preliminary announcement covers the year to 30 June 2021, with comparative figures relating to the year to 30 June 2020, and includes the results and net assets of the Group. The financial information has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 30 June 2021. Whilst the financial information included in this announcement has been computed in accordance with the recognition and measurement requirements of international accounting standards in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

The financial information does not constitute the Group's financial statements for the years ended 30 June 2021 or 30 June 2020, but is derived from those financial statements. Those financial statements give a true and fair view of the assets, liabilities, financial position and results of the Group. Financial statements for the year ended 30 June 2020 have been delivered to the Registrar of Companies and those for the year ended 30 June 2021 will be delivered following the Company's AGM. The auditors' reports on both the 30 June 2021 and 30 June 2020 financial statements were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all years presented, other than where new policies have been adopted.

Going concern

In light of the significant impact of COVID-19 on the UK economy, and the retail sector, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the Group's and Company's financial statements for the year ended 30 June 2021. In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

During the period covered by this report, the Group raised a total of £353.9 million from the issue of equity shares and a further £248.6m million of debt; being £113.8m under the Barclays / RBC Bank facility, £60.0m under the Wells Fargo

RCF and increases to the existing HSBC RCF and Bayerische Landesbank facility of £40.0m and £34.8m respectively (see note 20 for further information). All financial covenants have been met to date.

In September 2021, the HSBC RCF facility that was due to mature in August 2022 was extended by a further twelve months to mature in August 2023.

The Group generated net cash flow from operating activities in the period of £42.8 million, with its cash balances at 30 June 2021 totaling £19.6 million. The Group had no capital commitments or contingent liabilities as at the year end date.

As at the date of issuance of these consolidated financial statements, all contractual grocery rent for the March and June quarters has been collected in full; similarly, over 99.5% from non-grocery units has been collected or recovered under vendor provided rental guarantees.

The Group benefits from a secure income stream from its property assets that are let to tenants with excellent covenant strength, and are critical to the UK grocery infrastructure, under long leases that are subject to upward only rent reviews.

As a result, the Directors believe that the Group is well placed to manage its financing and other business risks and that the Group will remain viable, continuing to operate and meet its liabilities for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements. The Directors are therefore of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

Accounting convention and currency

The consolidated financial statements (the "financial statements") have been prepared on a historical cost basis, except that investment properties, rental guarantees and interest rate derivatives are measured at fair value.

The financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated. Pounds Sterling is the functional currency of the Company and the presentation currency of the Group.

Adoption of new and revised standards

In the current financial year, the Group has adopted a number of minor amendments to standards effective in the year issued by the IASB, none of which have had a material impact on the Group.

Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform - The amendments provide relief in applying the requirements of IAS 39 to certain hedges, including allowing the Group to assume that interest rate benchmarks on which hedged cash flows are based (e.g LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no ineffective portion of the hedge has been recognised.

Amendments to IFRS 3 "Business Combinations", definition of a business - The amendment provides a revised framework for evaluating a business and introduces an optional "concentration test" and impacts the assessment and judgements used in determining whether future property transactions represent an asset acquisition or business combination. As a result of the amendment it is expected that future transactions are more likely to be treated as an asset acquisition.

Standards and interpretations in issue not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current accounting period and have not been adopted early. Notably, amendments to IAS 1 which clarifies the criteria used to determine whether liabilities are classified as current or non-current (effective 1 January 2023). These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendment is not expected to have an impact on the presentation or classification of the liabilities in the Group based on rights that are in existence at the end of the reporting period.

The Interest Rate Benchmark Reform - IBOR 'phase 2' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 provide a practical expedient to account for changes in the basis for determining contractual cash flows of financial assets and financial liabilities as a result of IBOR reform. Under the practical expedient, entities will account for these changes by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9 without the recognition of an immediate gain or loss. This practical expedient applies only to such a change and only to the extent that it is necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis.

Further amendments include amendments to IFRS 16, 'Leases' - Covid-19 related rent concessions, amendments to IFRS 7, IFRS 4, a number of narrow-scope amendments to IAS 1, Practice statement 2, IAS 8, IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.

The above amendments are not expected to have a significant impact on the Group's results.

Significant accounting judgements, estimates and assumptions

The preparation of these financial statements in accordance with IFRS requires the Directors of the Company to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements.

Key estimate: Fair value of investment properties

The fair value of the Group's investment properties held directly and indirectly through a joint venture is determined by the Group's independent valuer on the basis of market value in accordance with the RICS Valuation - Global Standards (the 'Red Book'). Recognised valuation techniques are used by the independent valuer which are in accordance with those recommended by the International Valuation Standard Committee and compliant with IFRS 13 "Fair Value Measurement."

The independent valuer did not include any material valuation uncertainty clause in relation to the valuation of the Group's investment property for 30 June 2021 or 30 June 2020.

The independent valuer is considered to have sufficient current local and national knowledge of the supermarket property market and the requisite skills and understanding to undertake the valuation competently.

In forming an opinion as to fair value, the independent valuer makes a series of assumptions, which are typically market-related, such as those in relation to net initial yields and expected rental values. These are based on the independent valuer's professional judgement. Other factors taken into account by the independent valuer in arriving at the valuation of the Group's investment properties include the length of property leases, the location of the properties and the strength of tenant covenants.

The fair value of the Group's investment properties as determined by the independent valuer, along with the significant methods and assumptions used in estimating this fair value, are set out in note 12.

Key judgement: Joint ventures - joint control

In the prior year, the Group entered into a 50:50 joint venture with the British Airways Pension Trustees Limited to acquire 100% of the issued share capital in Horndrift Limited for a combined total consideration of £102m plus costs. During the year, the joint venture also acquired 100% of the issued share capital in Cornerford Limited for a combined total consideration of £115m plus costs (together "the Joint Venture Interest").

Horndrift Limited and Cornerford Limited each hold a 25.2% beneficial interest in a property trust arrangement / bond securitisation structure (the "Structure") which holds a portfolio of 26 Sainsbury's supermarket properties funded by bonds which mature in 2023.

The classification and accounting treatment of the Joint Venture Interest in the property trust arrangement in the Group's consolidated financial statements is subject to significant judgement. By reference to the contractual arrangements and deeds that regulate the Structure, it was necessary to determine whether the Joint Venture Interest, together with the other key parties of the Structure had the ability to jointly control the Structure through their respective rights as defined by the contractual arrangements and deeds of the Structure. The review of the Joint Venture Interest and the other key parties rights required significant judgement in assessing whether the rights identified were substantive as defined by IFRS 10 Consolidated Financial Statements, principally in respect of whether there were any economic barriers that prevent the joint venture investment or the other key parties from exercising their rights. Through assessing the expected possible outcomes either before or upon maturity of the Structure it was determined that there were no significant economic barriers that would prevent Horndrift Limited, Cornerford Limited or the other key parties from exercising their rights under the contractual arrangements and deeds of the Structure.

The Directors therefore concluded that through its Joint Venture Interest, the Group indirectly has joint control of the Structure as defined by IFRS 10 Consolidated Financial Statements. As such the Group's interest in the Structure is accounted for using the equity method of accounting under IAS 28.

Key judgement: Acquisition of investment properties

The Group has acquired and intends to acquire further investment properties. At the time of each purchase the Directors assess whether an acquisition represents the acquisition of an asset or the acquisition of a business.

Under the Definition of a Business (Amendments to IFRS 3 "Business Combinations"), to be considered as a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The optional 'concentration test' is also applied, where if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

During the year, the group completed 19 acquisitions. In 18 cases the concentration test was applied and met, resulting in the acquisitions being accounted for as asset purchases.

For the remaining acquisition where the concentration test was not met, management reviewed if any of the acquired processes were substantive in accordance with IFRS 3. Management concluded that the processes were ancillary in nature to the overall asset and the acquisition shall be considered as an asset purchase.

All £541.2m of acquisitions during the year were accounted for as asset purchases.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

2.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June 2021.

Subsidiaries are those entities including special purpose entities, directly or indirectly controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, intra group balances, transactions and unrealised gains or losses are eliminated in full.

Uniform accounting policies are adopted for all entities within the Group.

2.2 Segmental information

The Directors are of the opinion that the Group is currently engaged in a single segment business, being investment in United Kingdom in supermarket property assets; the non-supermarket properties are ancillary in nature to the supermarket property assets and are therefore not segmented.

2.3 Rental income

Rental income arising on investment properties is accounted for in profit or loss on a straight-line basis over the lease term, as adjusted for the following:

- Any rental income from fixed and minimum guaranteed rent review uplifts is recognised on a straight-line basis over the lease term;
- Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Contingent rents, such as those arising from indexed-linked rent uplifts or market based rent reviews, are recognised in the period in which they are earned.

Where income is recognised in advance of the related cash flows due to fixed and minimum guaranteed rent review uplifts or lease incentives, an adjustment is made to ensure that the carrying value of the relevant property, including the accrued rent relating to such uplifts or lease incentives, does not exceed the external valuation.

Rental income is invoiced in advance with that element of invoiced rental income that relates to a future period being included within deferred rental income in the consolidated statement of financial position.

2.4 Finance expense

Finance expenses consist principally of interest payable and the amortisation of loan arrangement fees.

Loan arrangement fees are expensed using the effective interest method over the term of the relevant loan. Interest payable and other finance costs, including commitment fees, which the Group incurs in connection with bank borrowings, are expensed in the period to which they relate.

2.5 Administrative and other expenses

Administrative and other expenses, including the investment advisory fees payable to the Investment Adviser, are recognised as a profit or loss on an accruals basis.

2.6 Dividends payable to Shareholders

Dividends to the Company's Shareholders are recognised when they become legally payable, as a reduction in equity in the financial statements. Interim equity dividends are recognised when paid. Final equity dividends will be recognised when approved by Shareholders at an AGM.

2.7 Taxation

Non-REIT taxable income

Taxation on the Group's profit or loss for the period that is not exempt from tax under the UK-REIT regulations comprises current and deferred tax, as applicable. Tax is recognised in profit or loss except to the extent that it relates to items recognised as direct movements in equity, in which case it is similarly recognised as a direct movement in equity.

Current tax is tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the end of the relevant period.

Entry to the UK-REIT regime

The Group obtained its UK-REIT status effective from 21 December 2017. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Group's property rental business, comprising both income and capital gains, being exempt from UK taxation.

The Group intends to ensure that it complies with the UK-REIT regulations on an on-going basis and regularly monitors the conditions required to maintain REIT status.

2.8 Investment properties

Investment properties consist of land and buildings which are held to earn income together with the potential for capital growth.

Investment properties are recognised when the risks and rewards of ownership have been transferred and are measured initially at cost, being the fair value of the consideration given, including transaction costs. Where the purchase price (or proportion thereof) of an investment property is settled through the issue of new ordinary shares in the Company, the number of shares issued is such that the fair value of the share consideration is equal to the fair value of the asset being acquired. Transaction costs include transfer taxes and professional fees for legal services. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property. All other property expenditure is written off in profit or loss as incurred.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in profit or loss in the period in which they arise.

Gains and losses on disposals of investment properties will be determined as the difference between the net disposal proceeds and the carrying value of the relevant asset. These will be recognised in profit or loss in the period in which they arise.

Initially, rental guarantees are recognised at their fair value and separated from the purchase price on initial recognition of the property being purchased. They are subsequently measured at their fair value at each reporting date with any movements recognised in the profit or loss.

2.9 Joint ventures

Interests in joint ventures are accounted for using the equity method of accounting. The Group's joint ventures are arrangements in which the partners have joint control and rights to the net assets of the arrangement. Investments in joint ventures are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment or share of income adjusted for dividends. In assessing whether a particular entity is controlled, the Group considers the same principles as control over subsidiaries as described in note 2.1.

2.10 Property, plant and equipment

Property, plant and equipment comprises of rooftop solar panels. Rooftop solar panels are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised over the useful lives of the equipment, using the straight-line method at a rate of between 25- 30 years depending on the useful economic life.

Residual value is reviewed at least at each financial year and there is no depreciable amount if residual value is the same as, or exceeds, book value. Any gain or loss arising on the disposal of the rooftop solar panels are determined as the difference between the sales proceeds and the carrying amount of the asset.

2.11 Financial assets and liabilities

Financial assets and liabilities are recognised when the relevant Group entity becomes a party to the unconditional contractual terms of an instrument. Unless otherwise indicated, the carrying amounts of financial assets and liabilities are considered by the Directors to be reasonable estimates of their fair values.

Financial assets

Financial assets are recognised initially at their fair value. All of the Group's financial assets, except interest rate derivatives, are held at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

Trade and other receivables

Trade and other receivables, including rents receivable, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provisions for impairment are calculated using an expected credit loss model. Balances will be written-off in profit or loss in circumstances where the probability of recovery is assessed as being remote.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently at amortised cost.

Bank borrowings

Bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, bank borrowings are subsequently measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Derivative financial instruments and hedge accounting

The Group's derivative financial instruments currently comprise an interest rate cap and interest rate swaps. Both are designated as hedging instruments for which hedge accounting is being applied as under IAS 39. These instruments are used to manage the Group's cash flow interest rate risk.

The instruments are initially recognised at fair value on the date that the derivative contract is entered into, being the cost of any premium paid at inception, and are subsequently re-measured at their fair value at each reporting date.

Fair value measurement of derivative financial instruments

The fair value of derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the relevant group entity and its counterparties.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

A number of assumptions are used in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contract rate and the valuation rate.

Hedge accounting

At the inception of a hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Assuming the criteria for applying hedge accounting continue to be met the effective portion of gains and losses on the revaluation of such instruments are recognised in other comprehensive income and accumulated in the cash flow hedging reserve. Any ineffective portion of such gains and losses will be recognised in profit or loss within finance income or expense as appropriate. The cumulative gain or loss recognised in other comprehensive income is reclassified from the cash flow hedge reserve to profit or loss (finance expense) at the same time as the related hedged interest expense is recognised.

2.12 Equity instruments

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in profit or loss.

Further details of the accounting for the proceeds from the issue of shares in the period are disclosed in note 22.

2.13 Fair value measurements and hierarchy

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market. It is based on the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. A fair value measurement of a non-financial asset takes into account the best and highest value use for that asset.

The fair value hierarchy to be applied under IFRS 13 is as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are carried at fair value and which will be recorded in the financial information on a recurring basis, the Group will determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

3. Gross rental income

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Rental income - freehold property	29,679	10,725
Rental income - long leasehold property	18,477	15,627
Gross rental income	48,156	26,352
	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Property insurance recoverable	251	-
Service charge recoverable	579	315
Total property insurance and service charge income	830	315
Total property income	48,986	26,667

Included within rental income is a £1,998,000 (2020: £865,000) rent smoothing adjustment that arises as a result of IFRS 16 'Leases' requiring that rental income in respect of leases with rents increasing by a fixed percentage be accounted for on straight-line basis over the lease term. During the year this resulted in an increase in rental income and an offsetting entry being recognised in profit or loss as an adjustment to the investment property revaluation.

On an annualised basis, rental income comprises £27,012,000 (2020: 12,844,000) relating to the Group's largest tenant, £17,271,000 (2020: £10,725,000) relating to the Group's second largest tenant and £5,340,000 (2020: £2,783,000) relating to the Group's third largest tenant. There were no further tenants representing more than 10% of annualised gross rental income during either year.

4. Service charge expense

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Property insurance expenses	379	-
Service charge expenses	665	315
Total property insurance and service charge expense	1,044	315

5. Administrative and other expenses

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Investment Adviser fees (Note 27)	6,255	3,252
Directors' remuneration (Note 7)	260	165
Corporate administration fees	676	317
Legal and professional fees	916	708
Other administrative expenses	1,155	742
Total administrative and other expenses	9,262	5,184

The fees relating to the issue of shares in the year have been treated as share issue expenses and offset against the share premium reserve.

6. Operating profit

Operating profit is stated after charging fees for:

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Audit of the Company's consolidated and individual financial statements	155	210
Audit of subsidiaries, pursuant to legislation	78	41
Total audit services	233	251
Audit related services: interim review	31	26
Total audit and audit related services	264	277

The Group's auditor also provided the following services in relation to the placing of share capital, the fees for which have been recognised within equity as a deduction from share premium:

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Other non-audit services: corporate finance services in connection with the October 2020 and May 2021 placings	90	-
Other non-audit services: corporate finance services in connection with the October 2019 and May 2020 placings	-	65
Total other non-audit services	90	65
Total fees charged by the Group's auditor	354	342

7. Directors' remuneration

The Group had no employees in the current or prior year. The Directors, who are the key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents fees for services provided, was as follows:

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Directors' fees	240	148
Employer's National Insurance Contribution	20	17
Total Directors' remuneration	260	165

The highest paid Director received £70,000 (2020: £55,000) for services during the year.

8. Finance expense

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Interest payable on bank borrowings and hedging arrangements	5,810	3,685
Fair value adjustment of interest rate derivatives (Note 19)	706	294
Commitment fees payable	532	280
Amortisation of loan arrangement fees	1,442	587
Amortisation of interest rate derivative premium (Note 19)	28	57
Total finance expense	8,518	4,903

The above finance expense includes the following in respect of liabilities not classified as fair value through profit and loss:

	Year to 30 June 2021	Year to 30 June 2020
	£'000	£'000
Total interest expense on financial liabilities held at amortised cost	7,252	4,271
Fee expense not part of effective interest rate for financial liabilities held at amortised cost	532	280
Total finance expense	7,784	4,551

9. Taxation

A) Tax charge in profit or loss

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Corporation tax	-	-

B) Total tax expense

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Tax charge in profit and loss as per the above	-	-
Share of tax expense of equity accounted joint ventures	511	37
Total tax expense	511	37

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT regime exempts the profits of the Group's property rental business from UK corporation tax. To operate as a UK Group REIT a number of conditions had to be satisfied in respect of the Company, the Group's qualifying activity and the Group's balance of business. Since the 21 December 2017 the Group has met all such applicable conditions.

The reconciliation of the profit before tax multiplied by the standard rate of corporation tax for the period of 19% to the total tax charge is as follows:

C) Reconciliation of the total tax charge for the year

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Profit on ordinary activities before taxation	81,956	32,763
Theoretical tax at UK standard corporation tax rate of 19%	15,572	6,225
Effects of:		
Investment property revaluation not taxable	(6,895)	(2,480)
Negative goodwill not taxable	-	(562)
REIT exempt income	(8,677)	(3,005)
Share of tax expense of equity accounted joint ventures	511	37
Total tax expense for the year	511	37

UK REIT exempt income includes property rental income that is exempt from UK corporation tax in accordance with Part 12 of CTA 2010.

10. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings on a comparable basis. EPRA EPS is a measure of EPS designed by EPRA to enable entities to present underlying earnings from core operating activities, which excludes fair value movements on investment properties and negative goodwill.

The calculation of basic, diluted and EPRA EPS is as follows:

	Net profit attributable to ordinary Shareholders £' 000	Weighted average number of ordinary shares ¹ Number	Earnings/ per share Pence
For the year ended 30 June 2021			
Basic and diluted EPS	81,956	652,828,945	12.6
Adjustments to remove:			
Changes in fair value of investment properties and rent guarantees	(36,288)	-	(5.6)
Group share of changes in fair value of joint venture investment properties	(5,619)	-	(0.9)
Group share of negative goodwill from joint venture investment	(3,265)	-	(0.5)
EPRA EPS	36,784	652,828,945	5.6p

	Net profit attributable to ordinary Shareholders £' 000	Weighted average number of ordinary shares ¹ Number	Earnings/ per share Pence
For the year ended 30 June 2020			
Basic and diluted EPS	32,763	334,236,233	9.8p
Adjustments to remove:			
Changes in fair value of investment properties and rent guarantees	(13,052)	-	(3.9)p
Negative goodwill	(2,960)	-	(0.9)p
EPRA EPS	16,751	334,236,233	5.0p

¹ Based on the weighted average number of ordinary shares in issue.

¹ Based on the weighted average number of ordinary shares in issue.

11. Dividends

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
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Amounts recognised as a distribution to ordinary

Shareholders in the year:

Dividends paid	35,481	20,045
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On 8 July 2020, the Board declared a fourth interim dividend for the year ended 30 June 2020 of 1.460 pence per share, which was paid on 7 August 2020 to Shareholders on the register on 17 July 2020.

On 17 September 2020 the Board declared a first interim dividend for the year ended 30 June 2021 of 1.465 pence per share, which was paid on 16 October 2020 to Shareholders on the register on 25 September 2020.

On 8 January 2021, the Board declared a second interim dividend for the year ended 30 June 2021 of 1.465 pence per share, which was paid on 26 February 2021 to Shareholders on the register on 22 January 2021.

On 8 April 2021, the Board declared a third interim dividend for the year ended 30 June 2021 of 1.465 pence per share, which was paid on 21 May 2021 to Shareholders on the register on 16 April 2021.

On 8 July 2021, the Board declared a fourth interim dividend for the year ended 30 June 2021 of 1.465 pence per share, which was paid on 7 August 2021 to Shareholders on the register on 16 July 2021. This has not been included as a liability as at 30 June 2021.

12. Investment properties

In accordance with IAS 40 "Investment Property", the Group's investment properties have been independently valued at fair value by Cushman & Wakefield, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation - Global Standards (the "Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The independent valuer in forming its opinion on valuation makes a series of assumptions. As explained in note 2, all the valuations of the Group's investment property at 30 June 2021 are classified as 'level 3' in the fair value hierarchy defined in IFRS 13.

The valuations are ultimately the responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

	Freehold £'000	Long Leasehold £'000	Total £'000
At 1 July 2020	244,030	295,380	539,410
Property additions	438,710	102,500	541,210
Capitalised acquisition costs	23,331	5,799	29,130
Revaluation movement	17,469	21,161	38,630
Valuation at 30 June 2021	723,540	424,840	1,148,380

	Freehold £'000	Long Leasehold £'000	Total £'000
At 1 July 2019	84,450	283,780	368,230
Property additions	148,825	-	148,825
Capitalised acquisition costs	8,438	-	8,438
Revaluation movement	2,317	11,600	13,917
Valuation at 30 June 2020	244,030	295,380	539,410

There were 19 property acquisitions during the period, of which one was purchased through the acquisition of a corporate structure, rather than acquiring the asset directly.

Included within the carrying value of investment properties at 30 June 2021 is £3,558,000 (2020: £1,560,000) in respect of the smoothing of fixed contractual rent uplifts as described in note 3. The difference between rents on a straight-line basis and rents actually receivable is included within the carrying value of the investment properties but does not increase that carrying value over fair value. The effect of this adjustment on the revaluation movement for the period is as follows:

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Revaluation movement per above	38,630	13,917
Rent smoothing adjustment (note 3)	(1,998)	(865)
Movements in associated rent guarantees (note 15)	(344)	-
Change in fair value recognised in profit or loss	36,288	13,052

Valuation techniques and key unobservable inputs

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards as 'the estimated amount for which an asset or liability should exchange on the date of the valuation 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'. Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

The yield methodology approach is used when valuing the Group's properties which uses market rental values capitalised with a market capitalisation rate. This is sense-checked against the market comparable method (or market comparable approach) where a property's fair value is estimated based on comparable transactions in the market.

Unobservable inputs

Significant unobservable inputs include: the estimated rental value ("ERV") based on market conditions prevailing at the valuation date and net initial yield. Other unobservable inputs include but are not limited to the future rental growth - the estimated average increase in rent based on both market estimations and contractual situations, and the physical condition of the individual properties determined by inspection.

A decrease in ERV would decrease the fair value. A decrease in net initial yield would increase the fair value.

Sensitivity of measurement of significant valuation inputs

As described in note 2 the determination of the valuation of the Group's investment property portfolio is open to judgement and is inherently subjective by nature.

Sensitivity analysis - impact of changes in net initial yields and rental values

Net initial yields of the Group's investment properties at 30 June 2021 range from 3.9% to 6.2% (2020: 4.3% to 6.2%). Rental values (being passing rents or ERV as relevant) on the Group's investment properties at 30 June 2021 range from £0.4m to £4.8 million (2020: £1.6 million to £4.0 million).

The table below analyses the sensitivity on the fair value of investment properties for changes in rental values and net initial yields:

	+1% Rental value £m	-1% Rental value £m	+0.25% Net Initial Yield £m	-0.25% Net Initial Yield £m
(Decrease)/increase in the fair value of investment properties as at 30 June 2021	11.5	(11.5)	(58.8)	65.6
(Decrease)/increase in the fair value of investment properties as at 30 June 2020	2.9	(2.9)	(23.8)	34.2

13. Subsidiaries

The entities listed in the following table were the subsidiary undertakings of the Company at 30 June 2021 all of which are wholly owned. All subsidiary undertakings are incorporated in England with their registered office at The Scalpel 18th Floor, 52 Lime Street, London, United Kingdom EC3M 7AF.

Company name	Type of holding	Nature of business
Supermarket Income Investments UK Limited	Direct	Intermediate parent company
Supermarket Income Investments (Midco2) UK Limited	Direct	Intermediate parent company
Supermarket Income Investments (Midco3) UK Limited	Direct	Intermediate parent company
Supermarket Income Investments (Midco4) UK Limited	Direct	Intermediate parent company
SII UK Halliwell (MIDCO) LTD	Direct	Intermediate parent company
Supermarket Income Investments (Midco6) UK Limited*	Direct	Intermediate parent company
SUPR Green Energy Limited*	Direct	Energy provision company
Supermarket Income Investments UK (NO1) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO2) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO3) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO4) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO5) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO6) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO7) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO8) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO9) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO10) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO11) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO12) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO16) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO16a) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO16b) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO16c) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO17) Limited	Indirect	Property investment
TPP Investments Limited**	Indirect	Property investment
T (Partnership) Limited**	Indirect	Property investment
The TBL Property Partnership**	Indirect	Property investment
Supermarket Income Investments UK (NO19) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO20) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO21) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO22) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO23) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO24) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO25) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO26) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO27) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO28) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO29) Limited*	Indirect	Property investment
Supermarket Income Investments UK (NO30) Limited*	Indirect	Property investment
SII UK Halliwell (No1) LTD	Indirect	Investment in Joint venture
SII UK Halliwell (No2) LTD	Indirect	Investment in Joint venture
SII UK Halliwell (No3) LTD	Indirect	Investment in Joint venture
SII UK Halliwell (No4) LTD	Indirect	Investment in Joint venture
SII UK Halliwell (No5) LTD	Indirect	Investment in Joint venture
SII UK Halliwell (No6) LTD	Indirect	Investment in Joint venture

* New subsidiaries incorporated during the year ended 30 June 2021

** Subsidiaries acquired during the year ended 30 June 2021

14. Investment in joint ventures

As at 30 June 2021 the Group has one joint venture investment. On the 28 May 2020, the group entered into a 50:50 joint venture with the British Airways Pension Trustees Limited to acquire 100% of the issued share capital in Horndrift

Limited for a combined total consideration of £102m plus costs.

On the 17 February 2021, the joint venture also acquired 100% of the issued share capital in Cornerford Limited for a combined total consideration of £115m plus costs.

Horndrift and Cornerford Limited each hold a 25.2% share of certain beneficial interests in a property trust arrangement that holds a portfolio of 26 Sainsbury's supermarket properties funded by bonds which mature in 2023 (the "Structure"). Rental surpluses generated by the Structure are required to be applied in the repayment of the bonds and not therefore capable of being transferred to the joint venture or Group until those bonds have been repaid.

The Group deems this to be a joint venture, as through the Group's interest in Horndrift Limited and Cornerford Limited it indirectly has joint control of the structure.

Under the terms of the Horner (Jersey) LP (the "JV") Limited Partnership Agreement ("LPA"), an affiliate of the Investment Adviser, Atrato Halliwell Limited (the "Carry Partner"), has a carried interest entitlement over the investment returns from the JV's investment in the Structure. Under the terms of the LPA, once the Group and its JV partner have received a return equal to their total investment in the JV plus an amount equivalent to a 10% per annum preferred return on that investment, the Carry Partner is entitled to share in any further cash returns to be distributed by the JV. The Carry Partner's entitlement to share in cash returns in excess of the preferred return increases depending on the extent of those cash returns, up to a maximum entitlement of £15,000,000.

The Group has estimated the value of the Carry Partner's interest in the Group's share of the JV as at 30 June 2021 to be £2,200,000 (2020: £Nil). This has been determined by reference to the expected returns from the JV's investment in the Structure, assuming that the proceeds realised from the future sale of the properties held by within the Structure are equal to the independent valuations of those properties as at 30 June 2021. Accordingly, the Group's beneficial interest in the JV, and therefore the Group's share of the JV's net assets as at 30 June 2021, is estimated to amount to 49.2%.

The carried interest payments are only payable upon cash distributions from the JV to the Group. To date there have been no cash distributions received by the Group and therefore no carried interest payment has yet become payable.

Entity	Partner	Address and principal place of business	Ownership
Jersey			
Horner (Jersey) LP	British Airways Pensions Trustees Limited	Third Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 2LH	50% owned by the Group
Horner REIT Limited		Third Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 2LH	100% owned by Horner (Jersey) LP
United Kingdom			
Horndrift Limited		Langham Hall UK LLP, 1 Fleet Street, London, E4M 7RA	100% owned by Horner REIT Limited
Cornerford Limited		Langham Hall UK LLP, 1 Fleet Street, London, E4M 7RA	100% owned by Horner REIT Limited

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
Opening balance	56,081	-
Acquired in the year	58,734	52,635
Negative goodwill arising on acquisition	-	2,960
Group's share of profit after tax	15,506	486
Closing balance	130,321	56,081

The joint venture entities have a 31 March year end. For accounting purposes consolidated management accounts have been prepared for the joint venture for the periods from acquisition to 30 June 2021 using accounting policies that are consistent with those of the Group.

The financial statements of Horner (Jersey) LP prepared on this basis would be as follows:

	Year to 30 June 2021 £'000	Period to 30 June 2020 £'000
Statement of comprehensive income		
Share of income from joint venture	28,885	971
Negative goodwill	6,530	-
Profit for the period and total comprehensive income	35,415	971
Group's share of profit for the period	15,506	486
Statement of financial position		
Investment in joint venture	265,045	112,161
Net assets	265,045	112,161
Group's share of net assets	130,320	56,081

Horner (Jersey) LP's share of the aggregate amounts recognised in the consolidated statement of comprehensive income and statement of financial position of the Structure are as follows:

	Year to 30 June 2021	Period to 30 June 2020
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	£'000	£'000
Rental income	19,886	1,224
Administrative and other expenses	(585)	(8)
Change in fair value of investment properties	13,259	-
Operating profit	32,560	1,216
Finance expense	(2,470)	(171)
Profit before taxation	30,090	1,045
Tax charge for the period	(1,205)	(74)
Profit for the period	28,885	971

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets		
Investment properties	477,447	227,400
Total non-current assets	477,447	227,400
Current assets		
Trade and other receivables	15,163	7,403
Cash and cash equivalents	-	-
Total current assets	15,163	7,403
Total assets	492,610	234,803
Non-current liabilities		
Debt securities in issue	190,788	102,320
Interest rate derivative	8,836	6,478
Deferred tax	11,048	5,376
Other liabilities	9,188	4,445
Total non-current liabilities	219,860	118,619
Current liabilities		
Trade and other payables	7,705	4,023
Total current liabilities	7,705	4,023
Total liabilities	227,565	122,642
Net assets	265,045	112,161

15. Financial assets held at fair value through profit or loss

Rental guarantees provided by the seller of an investment property are recognised as a financial asset when there is a valid expectation that the Group will utilise the guarantee over the contractual term. Rental guarantees are classified as financial assets at fair value through profit and loss in accordance with IFRS 9.

In determining the fair value of the rental guarantee, the Group makes an assessment of the expected future cash flows to be derived over the term of the rental guarantee and discounts these at the market rate. A review is performed on a periodic basis based on payments received and changes in the estimation of future cash flows.

The fair value of rental guarantees held by the Group are as follows:

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
At start of year	-	-
Additions	766	-
Fair value changes (including changes in estimated cash flows)	(344)	-
Collected during the year	(185)	-
Total financial assets held at fair value through profit and loss at end of year	237	-

16. Contract fulfilment assets

During the year, the Group has been chosen to provide renewable electricity to one of its tenants through the use of its acquired rooftop solar panels under the terms of a Purchasing Power Agreement ("PPA"). It is intended that under the terms of the PPA, the tenant will acquire 100% of the systems generated power with a maximum 75% contracted under a take or pay arrangement and 25% under a purchase option. The term of the PPA will be 20 years with a break option coterminous with the occupational lease expiry. As at the year end, no electricity under the PPA was provided to its tenant.

Under IFRS 15, the incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the costs are expected to be recoverable. The Group has determined that the following costs may be capitalised as contract fulfilment assets: i) legal fees to draft a contract (once the Group has been selected as a preferred supplier for a bid) and ii) any commissions payable that are directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but are expensed as incurred.

	Year to 30 June 2021 £'000	Year to 30 June 2020 £'000
At start of year	-	-
Additions	85	-
Amortisation	-	-
Total contract fulfilment assets at end of year	85	-

In preparing these consolidated financial statements, a review was undertaken to identify indicators of impairment of contract fulfilment assets. As at the year end no such indicators were noted.

17. Trade and other receivables

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Other receivables	2,624	1,629
Prepayments and accrued income	516	73
Total trade and other receivables	3,140	1,702

All other receivables relate to amounts that are less than 30 days overdue as at the year end date.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The expected loss rates are based on the Group's historical credit losses experienced over the period from incorporation to 30 June 2021. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonable possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

18. Trade and other payables

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Corporate accruals	6,153	5,279
VAT payable	2,216	1,124
Total trade and other payables	8,369	6,403

All trade and other payables relate to amounts that are less than 30 days overdue at the year end date.

19. Interest rate derivatives

	As at 30 June 2021 £'000	As at 30 June 2020 £' 000
Non-current asset: Interest rate cap	-	-
Non-current asset: Interest rate swaps	763	-
Non-current liability: Interest rate swaps	(1,210)	(1,988)

The interest rate cap and interest rate swaps are remeasured to fair value by the counterparty bank on a quarterly basis.

	Year to 30 June 2021 £'000	Year to 30 June 2020 £' 000
The fair value at the end of period comprises:		
At start of year (net)	(1,988)	(1,113)
Amortisation of cap premium in the year (note 8)	(28)	(57)
Changes in fair value of interest rate derivative in the year	863	(1,112)
Charge to the profit or loss (note 8)	706	294
Fair value at end of year (net)	(447)	(1,988)

To partially mitigate the interest rate risk that arises as a result of entering into the floating rate debt facilities referred to in note 20, the Group has entered into a derivative interest rate cap ('the cap') with HSBC and derivative interest rate swaps in relation to the loan facilities with Bayerische Landesbank ('the BLB swaps') and Wells Fargo Bank ('the Wells swap').

The total notional value of the cap was £63.5 million with its term coinciding with the expiry of the initial term of the HSBC credit facility. The strike rate of the cap as at 30 June 2021 was 1.75% which caps the Group's cost of borrowing at 3.35% on the hedged notional amount.

The total notional value of the BLB swaps was £86.9 million, which is equal to the total amounts drawn under Bayerische Landesbank loan facility. The terms of the BLB swaps coincide with the maturity of the respective Bayerische Landesbank loan facility. The fixed interest rate of £52.1 million of the swap exposure as at 30 June 2021 was 1.305%. The fixed interest rate of the swaps of £27.5 million and £7.3 million for the remaining exposure of £34.8 million were 0.178% and 0.128% respectively.

The total notional value of the Wells swap was £30.0 million with its term coinciding with the maturity of the Wells Fargo loan facility. The fixed interest rate of the swap as at 30 June 2021 was 0.189%.

63% of the Group's outstanding debt as at 30 June 2021 was hedged through the use of fixed rate debt or financial instruments as at 30 June 2021 (2020: 154%). It is the Group's target to hedge at least 50% of the Group's total debt at any time using fixed rate loans or interest rate derivatives.

The derivatives have been valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the last working day prior to each reporting date. The fair values are calculated using the present values of future cash flows, based on market forecasts of interest rates and adjusted for the credit risk of the counterparties. The amounts and timing of future cash flows are projected on the basis of the contractual terms.

All interest rate derivatives are classified as level 2 in the fair value hierarchy as defined under IFRS 13 and there were no transfers to or from other levels of the fair value hierarchy during the year.

In accordance with the Group's treasury risk policy, the Group applies cash flow hedge accounting in partially hedging the interest rate risks arising on its variable rate linked loans. Changes in the fair values of derivatives that are designated as cash flow hedges and are effective are recognised directly in the cash flow hedge reserve and included in other comprehensive income. Any ineffectiveness that may arise in this hedge relationship will be included in profit or loss.

With the exception of the Barclays/RBC facility, which is contractually linked to the Sterling Overnight Index Average ("SONIA"); the remaining floating rate loans and interest rate derivatives are contractually linked to LIBOR, a market rate which is expected to become unavailable from the end of 2021. The Investment Adviser is working with the Group's lenders and derivative counterparties to transition to an alternative benchmark rate, currently expected to be SONIA. The transition is not expected to have a material impact on the results or financial position of the Group.

20. Bank borrowings

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Amounts falling due after more than one year:		
Secured debt	413,320	128,660
Less: Unamortised finance costs	(3,636)	(1,869)
Bank borrowings per the consolidated statement of financial position	409,684	126,791

The Group has a secured revolving credit facility (the 'credit facility') of £140 million with HSBC Bank Plc, a five year interest-only loan secured facility ('the BLB loan facility') of £86.9 million with Bayerische Landesbank, a five year fixed rate secured loan facility ('the Deka loan facility') of £76.6 million with Deka Bank, a new seven year secured revolving credit facility (the 'Wells Fargo Credit facility') of £60 million with Wells Fargo and a five year secured revolving credit facility (the 'Barclays/RBC credit facility') of £113.8 million with Barclays and Royal Bank of Canada.

As at 30 June 2021, £106.1 million of the credit facility had been drawn down. Interest is payable quarterly on the loan facility based on a margin of 1.65% over three-month LIBOR on the first £100.0 million of the facility and a margin of 1.75% over three-month LIBOR on the remaining £40.0 million of the facility. In September 2021, the Group announced the extension of the credit facility by a further twelve months, with an expiry date of August 2023. The credit facility was also increased by a further £10.0 million bringing the total size of the facility to £150.0 million. The new tranche has a margin of 1.75% over SONIA.

As at 30 June 2021, the full amount of the BLB loan facility had been drawn down. Interest is payable quarterly on the £52.1 million tranche of the loan facility based on a margin of 1.25% above three-month LIBOR, the fixed interest rate on this tranche of the loan facility resulting from the Interest rate swap was 2.55%. Interest is payable on a margin of 1.85% above three-month LIBOR on the £27.5 million tranche; the fixed interest rate on this tranche of the loan resulting from the interest rate swap was 2.03%. Interest is payable on a margin of 1.85% above three-month LIBOR on the £7.3 million tranche; the fixed interest rate on this tranche of the loan resulting from the interest rate swap was 1.98%.

As at 30 June 2021, the full £76.6 million of the Deka loan facility has been drawn down. The Deka loan facility has been entered into as a fixed rate agreement, fixing the interest rate at 1.95% over the term of the facility. In August 2021, the Group increased the Deka loan facility by a further £20.0 million to £96.6 million at a fixed interest rate of 1.70%. All other terms remained unchanged.

As at 30 June 2021, £30.0 million of the £60.0 million Wells Fargo credit facility has been drawn down. Interest is payable quarterly on the loan facility based on a margin of 2.00% over three-month LIBOR; the fixed interest rate of this facility resulting from the interest rate swap was 2.19%. In September 2021, the Group exercised its accordion option under the Wells Fargo credit facility by £61.3 million. The new tranche has a term of two years plus three one year extension options at a margin of 1.40% above SONIA.

As at 30 June 2021, the full £113.8 million of the Barclays/RBC credit facility has been drawn down. Interest is payable quarterly on the loan facility based on a margin of 1.50% above daily SONIA.

The Group has been in compliance with all of the financial covenants across the Group's bank facilities as applicable throughout the periods covered by these financial statements.

Any associated fees in arranging the bank borrowings that are unamortised as at the end of the year are offset against amounts drawn under the facility as shown in the table above. The debt is secured by charges over the Group's investment properties and by charges over the shares of certain Group undertakings, not including the Company itself. There have been no defaults of breaches of any loan covenants during the current year or any prior period.

21. Categories of financial instruments

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Financial assets		
<i>Financial assets at amortised cost:</i>		
Cash and cash equivalents	19,579	20,353
Trade and other receivables	2,624	1,629
<i>Financial assets at fair value:</i>		
Rent guarantees	237	-
<i>Derivatives in effective hedges:</i>		
Interest rate derivative	763	-
Total financial assets	23,203	21,982
Financial liabilities		
<i>Financial liabilities at amortised cost:</i>		
Secured debt	409,684	126,791
Trade and other payables	6,153	5,279
<i>Derivatives in effective hedges:</i>		
Interest rate derivative	1,210	1,988
Total financial liabilities	417,047	134,058

At the year end, all financial assets and liabilities were measured at amortised cost except for the interest rate derivatives and rental guarantees which are measured at fair value. The interest rate derivative valuation is classified as 'level 2' in the fair value hierarchy as defined in IFRS 13 and its fair value was calculated using the present values of future cash flows, based on market forecasts of interest rates and adjusted for the credit risk of the counterparties.

Financial risk management

Through the Group's operations and use of debt financing it is exposed to certain risks. The Group's financial risk management objective is to minimise the effect of these risks, for example by using interest rate cap and interest rate

swap derivatives to partially mitigate exposure to fluctuations in interest rates, as described in note 19.

The exposure to each financial risk considered potentially material to the Group, how it arises and the policy for managing it is summarised below.

Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open positions in interest bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

The Group's interest-bearing financial instruments comprise cash and cash equivalents and bank borrowings. Changes in market interest rates therefore affect the Group's finance income and costs, although the Group has purchased interest rate derivatives as described in note 19 in order to partially mitigate the risk in respect of finance costs. The Group's sensitivity to changes in interest rates, calculated on the basis of a ten-basis point increase or decrease in closing three-month LIBOR or the SONIA daily rate, was as follows:

	Year to 30 June 2021 £'000	Year to 30 June 2020 £' 000
Effect on profit	356	130
Effect on other comprehensive income and equity	(376)	(233)

Trade and other receivables and payables are interest free as long as they are paid in accordance with their terms, and have payment terms of less than one year, so it is assumed that there is no material interest rate risk associated with these financial instruments.

The Group prepares its financial information in Sterling and all of its current operations are Sterling denominated. It therefore has no exposure to foreign currency and does not have any direct sensitivity to changes in foreign currency exchange rates.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. The principal counterparties are the Group's tenants (in respect of rent receivables arising under operating leases) and banks (as holders of the Group's cash deposits).

The credit risk of rent receivables is considered low because the counterparties to the operating leases are considered by the Board to be high quality tenants and any lease guarantors are of appropriate financial strength. Rent collection dates and statistics are monitored to identify any problems at an early stage, and if necessary rigorous credit control procedures will be applied to facilitate the recovery of rent receivables. The credit risk on cash deposits is limited because the counterparties are banks with credit ratings which are acceptable to the Board and are kept under review each quarter.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance costs and principal repayments on its secured debt. It is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group seeks to manage its liquidity risk by ensuring that sufficient cash is available to meet its foreseeable needs. These liquidity needs are relatively modest and are capable of being satisfied by the surplus available after rental receipts have been applied in payment of interest as required by the credit agreement relating to the Group's secured debt.

Before entering into any financing arrangements, the Board assesses the resources that are expected to be available to the Group to meet its liabilities when they fall due. These assessments are made on the basis of both base case and downside scenarios. The Group prepares detailed management accounts which are reviewed by the Board at least quarterly to assess ongoing liquidity requirements and compliance with loan covenants. The Board also keeps under review the maturity profile of the Group's cash deposits in order to have reasonable assurance that cash will be available for the settlement of liabilities when they fall due.

Inflation risk arises from the impact of inflation on the Group's income and expenditure. The majority of the Group's passing rent at 30 June 2021 is subject to inflation linked rent reviews. Consequently, the Group is exposed to movements in the Retail Prices Index ("RPI"), which is the relevant inflation benchmark. However, all RPI-linked rent review provisions provide those rents will only be subject to upwards review and never downwards. As a result, the Group is not exposed to a fall in rent in deflationary conditions.

The following table shows the maturity analysis for financial assets and liabilities. The table has been drawn up based on the undiscounted cash flows of non-derivative financial instruments, including future interest payments, based on the earliest date on which the Group can be required to pay and assuming that three-month LIBOR and the SONIA daily rate remains at the 30 June 2021 rate. Interest rate derivatives are shown at fair value and not at their gross undiscounted amounts.

	Less than one year £'000	One to two years £' 000	Two to five years £' 000	More than five years £' 000	Total £' 000
As at 30 June 2021					
Financial assets:					
Cash and cash equivalents	19,579	-	-	-	19,579
Trade and other receivables	2,624	-	-	-	2,624
Rent guarantees	237	-	-	-	237
Interest rate derivatives	-	-	763	-	763
Total financial assets	22,440	-	763	-	23,203

Financial liabilities:					
Bank borrowings	6,153	111,962	312,366	-	430,481
Trade payables and other payables	6,153	-	-	-	6,153
Interest rate derivatives	-	-	1,210	-	1,210
Total financial liabilities	12,306	111,962	313,576	-	437,844

	Less than one year £'000	One to two years £' 000	Two to five years £' 000	More than five years £' 000	Total £' 000
As at 30 June 2020					
Financial assets:					
Cash and cash equivalents	20,353	-	-	-	20,353

Trade and other receivables	1,629	-	-	-	1,629
Total financial assets	21,982	-	-	-	21,982

Financial liabilities:

Bank borrowings	2,821	5,642	128,660	-	137,123
Trade payables and other payables	5,279	-	-	-	5,279
Interest rate derivatives	-	-	1,988	-	1,988
Total financial liabilities	8,100	5,642	130,648	-	144,390

Capital risk management

The Board's primary objective when monitoring capital is to preserve the Group's ability to continue as a going concern, while ensuring it remains within its debt covenants so as to safeguard secured assets and avoid financial penalties. Bank borrowings are secured on the Group's property portfolio by way of fixed charges over property assets and over the shares in the property-owning subsidiaries and any intermediary holding companies of those subsidiaries. The Group does not provide any cross-group guarantees nor does the Company act as a guarantor to the lending bank.

At 30 June 2021, the capital structure of the Group consisted of bank borrowings (note 20), cash and cash equivalents, and equity attributable to the Shareholders of the Company (comprising share capital, retained earnings and the other reserves referred to in notes 22 and 23).

In managing the Group's capital structure, the Board considers the Group's cost of capital. In order to maintain or adjust the capital structure, the Group keeps under review the amount of any dividends or other returns to Shareholders and monitors the extent to which the issue of new shares or the realisation of assets may be required.

Reconciliation of financial liabilities relating to financing activities

	Bank borrowings due in more than 1 year £'000	Interest and commitment fees payable £'000	Interest rate derivatives £'000	Total £'000
As at 1 July 2020	126,791	692	1,988	129,471
Cash flows:				
Debt drawdowns in the year	582,961	-	-	582,961
Debt repayments in the year	(298,300)	-	-	(298,300)
Interest and commitment fees paid	-	(6,105)	-	(6,105)
Loan arrangement fees paid	(3,211)	-	-	(3,211)
Non-cash movements:				
Finance costs in the statement of comprehensive income	1,443	7,047	28	8,518
Fair value changes	-	-	(1,569)	(1,569)
As at 30 June 2021	409,684	1,634	447	411,765

	Bank borrowings due in more than 1 year £'000	Interest and commitment fees payable £'000	Interest rate derivatives £'000	Total £'000
As at 1 July 2019	143,708	715	1,113	145,536
Cash flows:				
Debt drawdowns in the year	141,510	-	-	141,510
Debt repayments in the year	(157,744)	-	-	(157,744)
Interest and commitment fees paid	-	(4,282)	-	(4,282)
Loan arrangement fees paid	(1,270)	-	-	(1,270)
Non-cash movements:				
Finance costs in the statement of comprehensive income	587	4,259	57	4,903
Fair value changes	-	-	818	818
At 30 June 2020	126,791	692	1,988	129,471

Movements in respect to share capital are disclosed in note 22 below.

The interest and commitment fees payable are included within the corporate accruals balance in note 18. Cash flow movements are included in the consolidated statement of cash flows and the non-cash movements are included in note 8. The movements in the interest rate derivative financial liabilities can be found in note 19.

22. Share capital

	Ordinary Shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
As at 1 July 2020	473,620,462	4,735	436,126	-	440,861
Ordinary shares issued and fully paid - 9 October 2020	192,307,692	1,923	198,077	-	200,000
Scrip dividends issued and fully paid - 26 February 2021	124,795	2	132	-	134
Ordinary shares issued and fully paid - 23 March 2021	144,297,503	1,443	151,513	-	152,956
Scrip dividends issued and fully paid - 21 May 2021	369,716	4	410	-	414

Share issue costs	-	-	(7,399)	-	(7,399)
As at 30 June 2021	810,720,168	8,107	778,859	-	786,966

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
As at 1 July 2019	239,833,219	2,398	203,672	14,391	220,461
Ordinary shares issued and fully paid - 7 October 2019	98,039,215	980	99,020	-	100,000
Ordinary shares issued and fully paid - 30 April 2020	135,748,028	1,357	138,463	-	139,820
Share issue costs	-	-	(5,029)	-	(5,029)
Dividends paid in the year	-	-	-	(14,391)	(14,391)
As at 30 June 2020	473,620,462	4,735	436,126	-	440,861

Share allotments and other movements in relation to the capital of the Company in the year:

On 9 October 2020 the Company completed an equity fundraising and issued an additional 192,307,692 ordinary shares of one pence each at a price of £1.04 per share. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £193.8 million was credited to the share premium reserve.

On 23 March 2021 the Company completed an equity fundraising and issued an additional 144,297,503 ordinary shares of one pence each at a price of £1.06 per share. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £148.4 million was credited to the share premium reserve.

Scrip dividends were issued on 26 February 2021 and 21 May 2021 at a reference price of £1.06 and £1.12 per share respectively. The Company issued a combined total of 494,511 shares under the scrip dividend programme during the year. The consideration received in excess of the par value of the ordinary shares issued, of £0.5 million was credited to the share premium reserve.

Ordinary Shareholders are entitled to all dividends declared by the Company and to all the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary Shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights. The aggregate ordinary shares in issue at 30 June 2021 total was 810.7 million.

23. Reserves

The nature and purpose of each of the reserves included within equity at 30 June 2021 are as follows:

- Share premium reserve: represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues
- Cash flow hedge reserve: represents cumulative gains or losses, net of tax, on effective cash flow hedging instruments
- Capital reduction reserve: represents a distributable reserve created following a Court approved reduction in capital less dividends paid
- Retained earnings represent cumulative net gains and losses recognised in the statement of comprehensive income.

The only movements in these reserves during the period are disclosed in the consolidated statement of changes in equity.

24. Capital commitments

The Group had no capital commitments outstanding as at 30 June 2021 and 30 June 2020.

25. Operating leases

The Group's principal assets are investment properties which are leased to third parties under non-cancellable operating leases. The weighted average remaining lease term at 30 June 2021 is 14.8 years (2020: 17.1 years). The leases contain predominately fixed or inflation-linked uplifts.

The future minimum lease payments receivable under the Group's leases, are as follows:

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Within one year	57,348	28,770
Between one year and five years	231,448	116,038
More than five years	612,471	354,707
Total	901,267	499,515

26. Net asset value per share

NAV per share is calculated by dividing the Group's net assets as shown in the consolidated statement of financial position, by the number of ordinary shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

The European Public Real Estate Association ("EPRA") publishes guidelines for the calculation of three measures of NAV to enable consistent comparisons between property companies, which were updated in the prior year and took effect from 1 January 2020. The Group uses EPRA Net Tangible Assets ("EPRA NTA") as the most meaningful measure of long term performance and the measure which is being adopted by the majority of UK REITs, establishing it as the industry standard benchmark. It excludes items that are considered to have no impact in the long term, such as the fair value of derivatives.

NAV and EPRA NTA per share calculation are as follows:

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Net assets per the consolidated statement of financial position	871,310	477,161
Intangibles	(85)	-
Fair value of interest rate derivatives	447	1,988

EPRA NTA	871,672	479,149
Ordinary shares in issue at 30 June	810,720,168	473,620,462
NAV per share - Basic and diluted (pence)	108p	101p
EPRA NTA per share (pence)	108p	101p

27. Transactions with related parties

Details of the related parties to the Group in the year and the transactions with these related parties were as follows:

a. Directors

Directors' fees

Nick Hewson, Chairman of the Board of Directors of the Company, is paid fees of £70,000 per annum, with the other Directors each being paid fees of £50,000 per annum. Jon Austen is paid an additional £7,500 per annum for his role as chair of the Company's Audit Committee, Vince Prior is paid an additional £2,500 per annum for his role as chair of the Company's Nomination Committee and £5,000 for his role as Senior Independent Director. Cathryn Vanderspar is paid an additional £5,000 for her role as Chair of the Remuneration Committee.

The total remuneration payable to the Directors in respect of the current year and previous year are disclosed in note 7. There were no amounts outstanding at the end of either year.

Directors' interests

Details of the direct and indirect interests of the Directors and their close families in the ordinary shares of one pence each in the Company at 30 June 2021 were as follows:

- Nick Hewson: 573,575 shares (0.07% of issued share capital)
- Jon Austen: 182,367 shares (0.02% of issued share capital)
- Vince Prior: 114,886 shares (0.01% of issued share capital)
- Cathryn Vanderspar: 57,515 (0.00% of issued share capital)

b. Investment Adviser

Investment advisory and accounting fees

The investment adviser to the Group, Atrato Capital Limited (the 'Investment Adviser'), is entitled to certain advisory fees under the terms of the Investment Advisory Agreement (the 'Agreement') dated 14 July 2021.

During the year the Agreement was amended on 17 September 2020 and subsequently amended after the year end on 14 July 2021. The terms of the revised agreement have not materially changed other than the extension of the notice period to a rolling two year term and the introduction of a new lower fee tier when NAV exceeds £2bn.

The entitlement of the Investment Adviser to advisory fees is by way of what are termed 'Monthly Management Fees' and 'Semi-Annual Management Fees' both of which are calculated by reference to the net asset value of the Group at particular dates, as adjusted for the financial impact of certain investment events and after deducting any uninvested proceeds from share issues up to the date of the calculation of the relevant fee (these adjusted amounts are referred to as 'Adjusted Net Asset Value' for the purpose of calculation of the fees in accordance with the Agreement).

Until the Adjusted Net Value of the Group exceeds £1,000 million, the entitlements to advisory fees can be summarised as follows:

- Monthly Management Fee payable monthly in arrears: 1/12th of 0.7125% per calendar month of Adjusted Net Asset Value up to or equal to £500 million and 1/12th of 0.5625% per calendar month of Adjusted Net Asset Value above £500 million and up to or equal to £1,000 million.
- Semi-Annual Management Fee payable semi-annually in arrears: 0.11875% of Adjusted Net Asset Value up to or equal to £500 million and 0.09375% of Adjusted Net Asset Value above £500 million and up to or equal to £1,000 million.

For the year to 30 June 2021 the total advisory fees payable to the Investment Adviser were £6,255,423 (2020: £3,252,000) of which £1,463,898 (2020: £820,000) is included in trade and other payables in the consolidated statement of financial position.

The Investment Adviser is also entitled to an annual accounting and administration service fee equal to: £51,500; plus (i) £4,175 for any indirect subsidiary of the Company and (ii) £1,620 for each direct subsidiary of the Company. A full list of the Company and its direct and indirect subsidiary undertakings is listed in Note 13 of these financial statements.

For the year to 30 June 2021 the total accounting and administration service fee payable to the Investment Adviser was £64,920 (2020: £Nil) of which £52,646 (2020: £Nil) is included in trade and other payables in the consolidated statement of financial position.

Introducer Services

Atrato Partners, an affiliate of the Investment Adviser, is entitled to fees in relation to the successful introduction of prospective investors in connection with subscriptions for ordinary share capital in the Company.

The entitlement of the Investment Adviser to introducer fees is by fees and/or commission which can be summarised as follows:

- Fee basis: £5,000 for any day on which prospective investors are introduced in meetings, provided that there are at least five such meetings with prospective investors on that day; and (ii) £1,000 per meeting for any day on which prospective investors are introduced in meetings but there are fewer than five such meetings with prospective investors on that day or:
- Commission basis: 1% of total subscription in respect of ordinary shares subscribed for by any prospective investor introduced by Atrato Partners.

For the period to 30 June 2021 the total introducer fees payable to the affiliate of the Investment Adviser were £269,172 (2020: £25,000).

Interest in shares of the Company

Details of the direct and indirect interests of the Directors of the Investment Adviser and their close families in the ordinary shares of one pence each in the Company at 30 June 2021 were as follows:

- Ben Green: 1,199,938 shares (0.15% of issued share capital)
- Steve Windsor: 1,319,486 shares (0.16% of issued share capital)

Carried interest held in the Group's joint venture

Under the terms of the Horner (Jersey) LP (the "JV") Limited Partnership Agreement ("LPA"), an affiliate of the Investment Adviser, Atrato Halliwell Limited (the "Carry Partner"), has a carried interest entitlement over the investment returns from the JV's investment in the Structure. Further details regarding the estimated value of the Carry Partner's interest in the JV are included in note 14.

The carried interest payments are only payable to the extent that distributions are made from the JV to the Group. To date there have been no cash distributions received by the Group and therefore no carried interest payment has yet become payable.

28. Subsequent events

Debt financing

In September 2021, the Group announced the following updates to its debt facilities:

- An increase of the secured term loan with Deka by £20.0 million to £96.6 million for the remaining three year term. The new tranche of the secured term loan has a fixed rate of 1.70%;
- A one year extension alongside a £10.0 million increase to its Revolving Credit Facility with HSBC priced at a margin of 1.75% over SONIA; and
- The exercise of its accordion option under the Wells Fargo credit facility by £61.3 million. The new tranche has a term of two years plus three one year extension options at a margin of 1.40% above SONIA.

Acquisitions

In September 2021, the Group also announced the acquisition of the following:

- Tesco in Prescott, Liverpool for £50.0 million (excluding acquisition costs) with 15 years unexpired lease term and annual, upwards-only, CPI-linked rent reviews;
- Morrisons in Workington, Cumbria for £28.9 million (excluding acquisition costs) with 17 years unexpired lease term and 5 yearly, upwards-only, CPI-linked rent reviews;
- An M&S and an Aldi in West Derby, Liverpool for £10.2 million (excluding acquisition costs). The M&S store has a 10 year unexpired lease term and 5 yearly, upwards-only, open market rent reviews. The Aldi store has 15 years unexpired lease term and 5 yearly, upwards-only, 2.5% fixed rent reviews compounded annually; and
- An Aldi in Oldham, Manchester for £5.6 million (excluding acquisition costs) with 10 years unexpired lease term and 5 yearly, upwards-only, 2% fixed rent reviews compounded annually.

Joint Venture investment

In September 2021, the Group announced that Sainsbury's exercised a purchase option to acquire 13 stores within the Sainsbury's Reversion Portfolio, of which the Group has a 50:50 share of a 51% beneficial interest within the Structure.

Sainsbury's acquisition of the 13 stores will be completed in March 2023 upon expiry of the current occupational leases. The purchase price under the option is to be determined based on the assumption of a new 20 year lease to Sainsbury's with the initial rent set at the higher of passing or open market rent, subject to upwards-only, 5 yearly market rent reviews.

GLOSSARY

AGM	Annual General Meeting
AIFMD	Alternative Investment Fund Managers Directive
Direct Portfolio	Wholly Owned Properties held by the Group
EPRA	European Public Real Estate Association
EPS	Earnings per share, calculated as the profit for the period after tax attributable to members of the parent company divided by the weighted average number of shares in issue in the period
FRI	A lease granted on an FRI basis means that all repairing and insuring obligations are imposed on the tenant, relieving the landlord from all liability for the cost of insurance and repairs
IFRS	International accounting standards in conformity with the requirements of the Companies Act 2006
IPO	An initial public offering (IPO) refers to the process of offering shares of a corporation to the public in a new stock issuance
LTV	Loan to Value: the outstanding amount of a loan as a

	percentage of property value
NAV	Net Asset Value
Net Initial Yield	Annualised net rents on investment properties as a percentage of the investment property valuation, less assumed purchaser's costs of 6.8%
Net Loan to Value or Net LTV	LTV calculated on the gross loan amount less cash balances
Omnichannel	Stores offering both instore picking and online fulfilment
REIT	Real Estate Investment Trust
Running yield	The anticipated Net Initial Yield at a future date, taking account of any rent reviews in the intervening period
Sainsbury's Reversionary Portfolio	A portfolio consisting of the freehold interest in 26 geographically diverse high quality Sainsbury's supermarkets
Total Shareholder Return	The movement in share price over a period plus dividends declared for the same period expressed as a percentage of the share price at the start of the Period
WAULT	Weighted Average Unexpired Lease Term. It is used by property companies as an indicator of the average remaining life of the leases within their portfolios

COMPANY INFORMATION

Directors	Nick Hewson (Non-Executive Chairman) Vince Prior (Chair of Nomination Committee & Senior Independent Director) Jon Austen (Chair of Audit Committee) Cathryn Vanderspar (Chair of Remuneration Committee)
Company Secretary	JTC (UK) Limited The Scalpel 52 Lime Street 18 th Floor London EC3M 7AF
Registrar	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
AIFM	JTC AIFM Services Ground floor Dorey Court Admiral Park St Peter Port Guernsey Channel Islands GY1 2HT
Investment Adviser	Atrato Capital Limited 123 Victoria Street London SW1E 6DE
Financial adviser, Broker and Placing Agent	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Auditors	BDO LLP 55 Baker Street London W1U 7EU

Property Valuers	Cushman & Wakefield 125 Old Broad Street London EC2N 1AR
Financial PR Advisers	FTI 200 Aldersgate Street London EC1A 4HD
Website	www.supermarketincomereit.com
Registered Office	The Scalpel 52 Lime Street 18 th Floor London EC3M 7AF
Stock exchange ticker ISIN	SUPR GB00BF345X11

This report will be available on the Company's website.

END

[1] Including dividends declared, to 30 June 2021

[2] Office for National Statistics 2020

[3] Kantar Grocery sales (12 weeks to 11 July 2020)

[4] IGD 2021

[5] Atrato Capital research based on operator announcements

[6] Profits which are not derived from property rental business would be subject to corporation tax.

[7] Kantar, January 2021

[8] IGD and operators 2021 Q1 investor presentations

[9] IGD Stores UK data 2020

[10] Colliers February 2021

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