ALTERNATIVE INCOME REIT PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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FINANCIAL HIGHLIGHTS

- Net Asset Value of £67.29 million, and of 83.58 pence per share ('pps') as at 30 June 2020 (30 June 2019: £76.32 million and 94.81 pps), impacted by the valuation changes in the property portfolio.

- Operating profit of £5.80 million (before fair value changes) for the year (year ended 30 June 2019: £5.58 million).

- Loss before tax of £5.05 million, loss per share of 6.27 pps for the year (year ended 30 June 2019: profit before tax of £4.23 million, earnings per share of 5.26 pps). The main driver behind this was the changes in the property valuations.

- EPRA Earnings per share[1] for the year were 5.42 pps (year ended 30 June 2019: 5.47 pps).

- Adjusted EPS[1] for the year were 4.25 pps (year ended June 2019: 4.86 pps).

- Total dividends of 5.0 pps declared in respect of the year (year ended 30 June 2019: 5.5 pps), underlining the Company's strong rent collection and cash flows. The Board has reaffirmed its target annual dividend of 5.5 pence per share, with full dividend cover expected, all else being equal, by September 2022.

- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 53.50 pps as at 30 June 2020 (30 June 2019: 78.75 pps).

- As at 30 June 2020, the Group had a £41.0 million loan facility with Canada Life Investments and was geared to 37.0% of the Gross Asset Value ('GAV') (30 June 2019: £41.0 million, gearing of 34.4%).

- EPRA Cost Ratio of 21.1% as at 30 June 2020 (30 June 2019: 19.2%)[2].

1 see Note 8 of the Consolidated Financial Statements, glossary on pages 89 to91 for definitions and abbreviations and page 10 for Key Performance Indicators and their definitions.

2 EPRA Cost Ratio is administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income. The calculation can be found on page 87.

HIGHLIGHTS CONTINUED

OPERATIONAL REVIEW

Following last year's Strategic Review, the Company has undergone a transformation:

- The Board has concentrated on reducing the Group's overhead in order to achieve a level of net income that will cover its dividend with cash earnings, in line with the original target at the time of the IPO.
- The Company made the necessary changes to its support team without major dislocation or interruption, whilst also achieving a reduction in its total overheads of almost 50% on an annualised basis during the final quarter of the year ended 30 June 2020, after excluding the impairments and provisions required at the year end and the one-off costs arising out of the transfer to new service providers.
- The principal change, following an extensive search involving a variety of potential managers, has been the appointment of M7 Real Estate Limited ('M7') as the Company's Investment Adviser from 14 May 2020. So far, the service has been delivered seamlessly and at significantly lower cost.
    - M7 is providing the Group with access to significant expertise and resource as well as a substantial and attractive pipeline of potential investment opportunities.
    - The Board is convinced that the appointment will improve performance and enhance the appeal of the Company, a key objective being to achieve a narrowing of the Company's share price discount to NAV and, in time, to grow the Company and attract new investment.

Whilst the full impact of the COVID-19 pandemic on the economy and property sector is still to be fully understood, the Board considers the Company to be well positioned to survive this period of uncertainty. The portfolio is currently fully let (2019: fully let) and the Group has headroom relative to its loan covenants. As at 30 September 2020, the asset valuations and rental income of the 16 properties secured to Canada Life would have needed to fall by 32% and 33% respectively before breaching the Loan to Value and Income Cover covenants respectively.

Taking account of concessions granted to certain tenants to settle their rent monthly, the Group's rents are currently split 83% quarterly and 17% monthly. As at today, all of the quarterly rents due on the September 2020 quarter day have been collected, along with all of the monthly rents due, and the remainder of the monthly rents are due by the end of this year. The Group reported on its June and March 2020 rent collections on 13 July and 24 April 2020, respectively. Since these dates, agreements have been reached with all of the Group's tenants whose rents were in arrears. Overall, 92% and 86% of rents, in respect of the June and March quarter dates respectively, have now been collected with agreements in place for the remaining arrears to be received by September 2021.

- As at 30 June 2020, the Group's property portfolio (including the Wet 'n' Wild Water Park held for sale) had a fair value of £104.76 million across 19 properties (30 June 2019: £112.99 million, 19 properties). £6.15m (74%) of this movement has been within the leisure, gym and hotel sectors, and a further £1.3m (16%) at the automotive dealerships. These sectors, both occupational and investment markets, have been amongst the most affected by the COVID-19 related lockdown.
- Weighted average unexpired lease term ('WAULT') of 19.5 years to the earlier of break and expiry (30 June 2019: 20.5 years) and 21.6 years to expiry (30 June 2019: 22.6 years).
- Rent recognised during the year was £7.35 million (30 June 2019: £6.91 million), of which, c.£1.28 million was accrued debtors for the combination of minimum uplifts and Meridian Steel's rent-free period (2019: £0.64 million). The number of tenants as at 30 June 2020 was 21 (30 June 2019: 21).
- The portfolio had gross passing rental income of £6.79 million as at 30 June 2020 (30 June 2019: £6.06 million), there was an additional £0.64 million subject to the Meridian Steel's rent-free period).
- EPRA Net Initial Yield ('NIY') of 5.72% as at 30 June 2020 (30 June 2019: 4.98%)[3].

3 EPRA Net Initial Yield is the 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 purchasers' costs estimated by the Group's External Valuers. A full reconciliation can be found on page 87.

HIGHLIGHTS CONTINUED

POST BALANCE SHEET EVENTS

The Group disposed of the Wet 'n' Wild Water Park, North Shields, for a total consideration of £3,204,500 (including a rent premium of £204,500) to Serco Leisure Operating Limited, the tenant and a wholly owned subsidiary of Serco Group plc. The disposal represented a 9.7% uplift on purchase price and a 12.4% premium on book value.

PROPOSED AMENDMENTS TO THE COMPANY'S INVESTMENT POLICY

For the Company to improve its long-term prospects and the value it delivers to shareholders and to achieve a narrowing of the discount to NAV through an increase in the share price, it needs to adapt to a rapidly changing commercial property market. The Board believe that to do so, it is critical that some changes are made to the Investment Policy, as outlined in the announcement on 5 October 2020.

Further explanation of the changes has been included in the Chairman's Statement on pages 4 to 7.

CHAIRMAN'S STATEMENT

OVERVIEW

I am pleased to present the annual audited results of Alternative Income REIT plc (the 'Company') together with its subsidiaries (the 'Group') for the financial year ended 30 June 2020.

Following last year's Strategic Review, the Company has undergone a period of transformation. The Board has concentrated on reducing the Group's expenditure in order to achieve a level of net income that will cover its dividend with cash earnings, in line with the original target at the time of the IPO. I am pleased to report that the Company made the necessary changes to its service providers without major dislocation or interruption, achieving a reduction in its total overheads of almost 50% on an annualised basis during the final quarter of the year ended 30 June 2020, after excluding the impairments and provisions required at the year end and the one-off costs arising out of the transfer to new service providers. The principal changes, being the replacement of AEW (UK) Investment Management LLP ('AEW') (the original investment manager of the Company) by M7 as Investment Adviser and the transfer of the accounting from Link Alternative Fund Administration Limited to M7 has, so far, been delivered seamlessly and at significantly lower cost, with no fee payable to M7 up to 30 September 2020. From 1 October 2020, M7 will charge an annual fee of 0.5% of the Company's net asset value, paid quarterly in arrears, but subject to a minimum fee of £90,000 per quarter.

During its tenure AEW failed to attract and secure sufficient capital to create the economies of scale necessary to deliver a high income, long lease strategy and the potential for a progressive dividend. AEW's tenure ceased on 9 April 2020 and subsequently, the Board, after an extensive search, is pleased to have appointed M7 as the Company's Investment Adviser from 14 May 2020[4].

M7 has an enviable record of delivering market beating investment returns for clients. M7 is providing the Group with access to significant expertise and resource as well as a substantial and attractive pipeline of potential investment opportunities. The Board remains convinced that the appointment of M7 will improve performance and enhance the appeal of the Company over both the short and long term, a key objective being to achieve a narrowing of the discount to NAV of the Company's share price and, in time, to grow the Company and attract new investments.

The Board believes that its actions have been both disciplined and timely, even though its plans have been delayed, initially by the Brexit debate and the ensuing election, and, latterly by the COVID-19 pandemic. The Board continues to believe that the Company is well placed to navigate the effects of the COVID-19 pandemic and the market dislocation that may follow, and that, with the proposed amendments to the Investment Policy outlined on page 6, the Company will deliver value for its shareholders in both the short and longer term.

COVID-19

Whilst the COVID-19 pandemic will continue to create global uncertainty, the Board believes that the Group is well positioned, with a resilient balance sheet and a diversified portfolio of long let, index-linked assets which should perform well in the event of a wider economic recession.

Over the recent period the Company's primary focus has been the health, safety and wellbeing of its stakeholders, coupled with proportionate support for its tenants and service providers, to ensure that as far as possible the financial position of both landlord and tenant remains healthy and sustainable, whilst protecting its responsibility to its shareholders.

Taking account of concessions granted to certain tenants to settle their rent monthly, the Group's rents are currently split 83% quarterly and 17% monthly. As at today, all of the quarterly rents due on the September 2020 quarter day have been collected, along with all of the monthly rents due, and the remainder of the monthly rents are due by the end of this year. The Group reported on its June and March 2020 rent collections on 13 July and 24 April 2020, respectively. Since these dates, agreements have been reached with all of the Group's tenants whose rents were in arrears. Overall, 92% and 86% of rents, in respect of the June and March quarter dates respectively, have now been collected with agreements in place for the remaining arrears to be received by September 2021.

4 during the interim period between 9 April 2020 and 14 May 2020, Mason Owen and Partners Limited acted as the Company's Investment Adviser.

CHAIRMAN'S STATEMENT CONTINUED

Whilst the full impact of the pandemic on the economy and property sector is yet to be fully understood, the Board considers the Company to be relatively well positioned to emerge successfully from this period of uncertainty. The portfolio is fully let and the Group has headroom under its loan covenants. As at 30 September 2020, the asset valuations and rental income of the 16 properties[5] secured to Canada Life would have needed to fall by 32% and 33% respectively before breaching the Loan to Value and Income Cover covenants respectively.

The portfolio has suffered relatively modest valuation declines over the past two quarters when compared to more traditional UK property portfolios. This is in part a reflection of our tenants' business activities when compared to a mainstream REIT portfolio, which might typically hold retail assets. The majority of the Group's portfolio has demonstrated its defensive qualities over the recent period underpinned by assets that are less vulnerable to the shift in sentiment affecting mainstream occupational markets.

The Board is confident that the combination of a better controlled overhead and its growing and sustainable rental income should deliver a fully cash covered dividend and, with additional investment, a progressive dividend.

PORTFOLIO PERFORMANCE

The near full deployment of the Group's funds for the whole year resulted in headline rent of circa £7.35 million during the year (2019: £6.91 million), of which, £1.28 million was accrued debtors for the combination of minimum contracted uplifts and Meridian Steel's rent-free period (2019: £0.6 million).

As at 30 June 2020, the Group's property portfolio had a fair value of £104.76 million (2019: £112.99 million). The portfolio had a net initial yield of 5.77% (2019: 4.99%), a WAULT to the first break of 19.5 years (21.6 years to expiry) and 88.6% of the income is inflation linked to Retail Price Index ('RPI') or Consumer Price Index ('CPI'). The Board has reaffirmed its target annual dividend of 5.5 pence per share, with a fully cash covered dividend cover expected, all else being equal, by September 2022.

At the end of July 2020, the Company disposed of the Wet 'n' Wild Water Park, North Shields, for a total consideration of £3,204,500 (including a rent premium of £204,500) to Serco Leisure Operating Limited, the tenant and a wholly owned subsidiary of Serco Group plc. The disposal represented a 9.7% uplift on purchase price and a 12.4% premium on book value as at 30 June 2020.

FINANCIAL RESULTS

	Year ended 30 June 2020	Year ended 30 June 2019
Operating profit before fair value changes [£'000]	5,803	5,581
Operating (loss)/ profit [£'000]	(3,608)	5,407
(Loss)/profit before tax [£'000]	(5,050)	4,233
(Loss)/profit per share - basic and diluted [pence]	(6.27)	5.26
EPRA EPS - basic and diluted [pence]	5.42	5.47
Adjusted EPS [pence]	4.25	4.86
Net Asset Value per share [pence]	83.58	94.81
EPRA Net Asset Value per share [pence]	83.58	94.81

Under International Financial Reporting Standards ('IFRS') as adopted by the European Union, the Group's operating profit before fair value changes for the financial year was £5.80 million (June 2019: £5.58 million).

Basic loss per share for the financial year was 6.27 pence (30 June 2019: earnings 5.26 pence). Adjusted EPS, as calculated in Note 8, for the financial year were 4.25 pence (30 June 2019: 4.86 pence).

Under European Public Real Estate Association ('EPRA') methodology, EPS for the financial year was 5.42 pence (30 June 2019: 5.47 pence). A full list of EPRA performance figures can be found on page 11.

The audited NAV per share as at 30 June 2020 was 83.58 pence (30 June 2019: 94.81 pence).

The Group has ongoing charges of 2.22% (30 June 2019: 1.53%) for the financial year, being a measure of annualised fund level operating costs for the year as a percentage of NAV. The EPRA cost ratio for the financial year was 21.1% (30 June 2019: 19.2%).

5 following the sale of the Wet 'n' Wild Water Park.

CHAIRMAN'S STATEMENT CONTINUED

FINANCING

As at 30 June 2020, the Group had fully utilised its £41.0 million loan facility with Canada Life Investments (30 June 2019: fully utilised). The weighted average interest cost of the Group's facility is 3.19% and the loan is repayable on the 20 October 2025. If repayment is made prior to this date, and the corresponding Gilt rate is lower than the contracted rate of interest then the loan terms provide for a significant early redemption fee[6].

DIVIDENDS

The Group declared two interim dividends of 1.375 pps, one interim dividend of 0.825 pps and a fourth interim dividend of 1.425 pps in respect of the financial year, totalling 5.00 pps (year ended 30 June 2019: four dividends totalling 5.50 pps).

In light of the circumstances affecting global economies and markets and the Group's rental collection levels for the March 2020 quarter day the Board considered it prudent to reduce the dividend for the quarter ended 31 March 2020, paying a dividend that equated to 60% of the targeted interim dividend for that quarter. For the quarter ended 30 June 2020, the Board declared a dividend of 1.425 pps, a significant increase on the 0.825 pps for the previous quarter, underlining the Company's strong rent collection for that quarter and a marginal increase compared with previous quarterly dividends.

PROPOSED AMENDMENTS TO THE COMPANY'S INVESTMENT POLICY

Whilst recognising that it is difficult to predict where markets will stabilise in current circumstances, the Board believes that the Group has a resilient portfolio. The Group has sustained a strong dividend distribution and delivered a significant reduction to its cost base.

However, none of this can disguise the fact that performance when measured by total shareholder return, the consequence of a combination of inadequate fund raising, asset purchase costs averaging around 6% across the portfolio and a long period of property market uncertainty, has resulted in unsatisfactory overall performance. Whilst the Company is now close to fully invested, the Board recognises that aspects of performance since IPO have been unsatisfactory, even after allowance for the change of investment manager and, more recently, market turbulence in anticipation of Brexit prior to the 2019 Election and latterly, the pandemic.

Following M7's review of the existing portfolio, the Board invited M7 to appraise the Company's Investment Policy and to make recommendations to update the investment strategy.

The Board believes that with the implementation of the proposed amendments to the investment policy and strategy announced on 5 October 2020 and outlined below, the Group has the potential to outperform from what is now a relatively strong base.

The current Investment Policy was constructed with a detailed set of restrictions, including restrictions around specific sector exposures. Many of these were required to differentiate the Company's investment policy from that of other investment vehicles managed by the Company's former investment manager, AEW. The Board believes that in light of this, the ongoing changes to the property markets and the opportunities that M7 has identified (set out in more detail in the Investment Adviser's proposed Investment Principles on page 12 that the Company will be better placed to deliver significant added value to shareholders with fewer and simpler investment restrictions.

The principal changes to the Investment Policy include reduction in the minimum WAULT of the portfolio to 12 years, removal of the requirement for leases representing 85% of gross passing rent to be linked to inflation and removal of the restrictions relating to permitted sectors, including the differentiation between traditional and non-traditional sectors.

The Board believes that, in general terms, the strategy of investment in non-traditional areas, which are becoming increasingly mainstream, remains fit for purpose. However, this needs some adjustment to reflect, in particular, the movement away from high street retail to online shopping, a big shift in sentiment in the business space market and changes in the credit environment. Specifically, the Board and the Investment Adviser see excellent potential in the warehouse and business space markets.

Therefore, following consultation with shareholders, the Company will be tabling an Ordinary Resolution at its AGM on Thursday 26 November 2020 to seek permission from shareholders to amend the Company's Investment Policy. The proposed amendments to the Company's Investment Policy are set out in more detail on pages 4 to 8 of the Notice of Meeting dated 19 October 2020 and sent to shareholders with the Annual Report and Financial Statements. An explanation of both the current and the proposed Investment Policy is set out on page 6.

The Board believes that the changes are in the best interests of the Company and shareholders as a whole and it is unanimous in recommending that shareholders should vote in favour of all resolutions, as the Directors will in respect of their own holdings.

6 As at 30 June 2020, the redemption fee would have been £5,261,651.

CHAIRMAN'S STATEMENT CONTINUED

OUTLOOK

Despite continuing political uncertainty and the potential for global economic dislocation, the fundamentals for UK property remain strong, even though there will inevitably be a good deal of disruption in the short term.

The performance at shareholder level has been unsatisfactory but the Group has a solid portfolio which has suffered modest impairment in the past year and should perform well moving forwards.

The proposed amendments to the investment policy will enhance the Company's capacity to pay a progressive dividend without impacting the underlying security of income and the Board is encouraged by the relatively limited valuation reduction. This resilience together with the recent cost savings leaves the Group well positioned to pursue an enhanced strategy, supported by an accomplished Investment Adviser in market conditions suited to a more active and responsive approach. The Board believes that with additional investment it can deliver to its shareholders both strong performance and a secure and progressive dividend.

Although the Board acknowledges that for certain shareholders the changes may represent a departure from the original strategy and a reduction of the commitment to a very long WAULT, we must all recognise that the world is going through a major upheaval which is having a huge impact on the physical environment and it would be wrong for the Board to ignore the changes. Investments subject to very long leases of 20 years or more have become very expensive and the Board and the Investment Adviser are convinced that the proposed target WAULT of 12 years is a more realistic objective and will deliver superior shareholder returns.

I would like to thank my fellow shareholders, Directors, the Investment Advisers and our other advisers and service providers who have provided professional support and services to the Group.

Steve Smith
Chairman

19 October 2020

BUSINESS MODEL AND STRATEGY

INTRODUCTION

Alternative Income REIT plc is a real estate investment trust listed on the premium segment of the Official List of the Financial Conduct Authority ('FCA') and traded on the Main Market of the London Stock Exchange. As part of its business model and strategy, the Group has maintained and intends to maintain its UK REIT status.

PROPOSED CHANGES TO INVESTMENT POLICY

Shareholders' authority is being sought at the forthcoming Annual General Meeting to amend the Company's Investment Policy. This proposal is explained in the Notice of Meeting which is being sent to Shareholders with this Annual Report. The current investment objective and policy is set out below. The Investment Adviser's proposed Investment Principles with respect to the Company are set out on page 12.

INVESTMENT OBJECTIVE

The investment objective of the Group is to generate a secure and predictable income return, sustainable in real terms, whilst at least maintaining capital values, in real terms, through investment in a diversified portfolio of UK properties, in alternative and specialist sectors.

INVESTMENT POLICY[7]

In order to achieve the investment objective, the Group invests in freehold and long leasehold properties across the whole spectrum of the UK property sector, but with a focus on alternative and specialist real estate sectors. Examples of alternative and specialist real estate sectors include, but are not limited to, leisure, hotels, healthcare, education, logistics, automotive, supported living and student accommodation.

In the event of a breach of the investment policy or the investment restrictions set out below, the Investment Manager shall inform the Board upon becoming aware of the same and, if the Board considers the breach to be material, notification will be made to a Regulatory Information Service and the Investment Manager will look to resolve the breach.

Any material change to the investment policy or investment restrictions of the Group may only be made with the prior approval of shareholders.

Investment Strategy

The Group focuses on properties which can deliver a secure income and preserve capital value, with an attractive entry yield. The Group has an emphasis on alternative and specialist property sectors to access the attractive value and capital preservation qualities which such sectors currently offer.

The Group will supplement this core strategy with active asset management initiatives for certain properties.

Subject at all times to the Investment Manager's assessment of their appeal and specific asset investment opportunities, permitted sectors include, but are not limited to the following: Healthcare; Leisure; Hotels and serviced apartments; Education; Automotive; Car parks; Residential; Supported living; Student accommodation; Logistics; Storage; Communications; Supermarkets; and, subject to the limitations on traditional sector exposures below, Offices; Shopping centres; Retail and retail warehouses; and Industrial.

The Group is not permitted to invest in land assets, including development land which does not have a development agreement attached, agriculture or timber.

The focus will be to invest in properties to construct a portfolio with the following minimum targets:

- a WAULT, at the time of investment, in excess of 18 years;
- at least 85% of the gross passing rent will have leases with rent reviews linked to inflation (RPI or CPI) at the time of investment;
- investment in properties which typically have a value, at the time of investment, of between £2 million and £30 million;
- at least 70% of the properties will be in non-traditional sectors;
- less than 30% of the properties will be in the traditional sectors of Retail, Industrial and Offices; and
- over 90% of properties will be freehold or very long leasehold (over 100 years).

7 All references are to an Investment Manager as the previous investment manager, AEW, also previously acted as AIFM at the time of the approval of the Investment Policy.

BUSINESS MODEL AND STRATEGY CONTINUED

Once GAV is £250 million or greater, future investments will be made to target a portfolio with at least 80% of the properties in non-traditional sectors and less than 20% of the properties in traditional sectors.

Whilst each acquisition will be made on a case-by-case basis, it is expected that properties will typically offer the following characteristics:

- existing tenants with strong business fundamentals and profitable operations in those locations;
- depth of tenant/operator demand;
- alternative use value;
- current passing rent close to or below rental value; and
- long-term demand drivers, including demographics, use of technology or built-for-purpose real estate.

The Group may invest in commercial properties or portfolios of commercial property assets which, in addition, include ancillary or secondary utilisations.

The Group does not intend to spend any more than 5% of the NAV in any rolling twelve month period on (a) the refurbishment of previously occupied space within the existing Portfolio, or (b) the refurbishment of new properties acquired with vacant units.

The Group may invest in corporate and other entities that hold property and the Group may also invest in conjunction with third party investors.

Investment Restrictions

GAV of less than £250 million

Investment in a single property limited to 15% of GAV (measured at the time of investment).

The value of assets in any sub-sector in one geographical region, at the time of investment, shall not exceed 15% of GAV.

GAV of £250 million or greater

Investment in a single property limited to 10% of GAV (measured at the time of investment).

Investments will be made with a view to reducing the maximum exposure to any subsector in one geographical region to 10% of GAV.

The value of assets in any one sector and sub-sector, at the time of investment, shall not exceed 50% of GAV and 25% of GAV respectively.

Exposure to a single tenant covenant will be limited to 15% of GAV.

The Group may commit up to a maximum of 10% of its GAV (measured at the commencement of the project) in development activities.

Investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 5% of Estimated Rental Value ('ERV').

The Group will not invest in other closed-ended investment companies.

If the Group invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 20% of GAV.

The Group will invest and manage its assets with the objective of spreading risk through the above investment restrictions.

When the measure of GAV is used to calculate the restrictions relating to (i) the value of a single property and (ii) the value of assets in any sub-sector in one geographical region, it will reflect an assumption that the Group has drawdown borrowings such that these borrowings are equal to 30% of GAV.

Borrowings

The Group has utilised borrowings to enhance returns over the medium term. Borrowings have been utilised on a limited recourse basis for each investment on all or part of the total Portfolio and will not exceed 40% of GAV (measured at drawdown) of each relevant investment or of the portfolio.

KEY PERFORMANCE INDICATORS

KPI AND DEFINITION	RELEVANCE TO STRATEGY	PERFORMANCE
1. Net Initial Yield ('NIY')		5.77%
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 purchasers' costs estimated by the Group's External Valuers.	The NIY is an indicator of the ability of the Company to meet its target dividend after adjusting for the impacts of leverage and deducting operating costs.	At 30 June 2020 (30 June 2019: 4.99%)
2. Weighted Average Unexpired Lease Term ('WAULT') to break and expiry		19.5 years to break and 21.6 years to expiry
The average lease term remaining to expiry across the portfolio, weighted by contracted rent.	The WAULT is a key measure of the quality of the portfolio. Long leases underpin the security of our future income.	At 30 June 2020 (30 June 2019: 20.5 years to break and 22.6 years to expiry)
3. Net Asset Value ('NAV')		£67.29 million (83.58 pence per share ('pps'))
NAV is the value of an entity's assets minus the value of its liabilities.	Provides stakeholders with the most relevant information on the fair value of the assets and liabilities of the Group.	At 30 June 2020 (30 June 2019: £76.32 million, 94.81 pps)
4. Dividend		5.00 pps
Dividends declared in relation to the period are in line with the stated dividend target as set out in the Prospectus at IPO. The Company targets a dividend of 5.50 pence per Ordinary Share per annum once fully invested and leveraged.	The Company seeks to deliver a sustainable income stream from its portfolio, which it distributes as dividends.	For the year ended 30 June 2020 (30 June 2019: 5.50 pps)
5. Adjusted EPS		4.25 pps
Adjusted EPS from core operational activities, as adjusted for non-cash items. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. See Note 8 to the Consolidated Financial Statements.	This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.	For the year ended 30 June 2020 (30 June 2019: 4.86 pps)
6. Leverage (Loan-to-GAV)		37.0%
The proportion of the Group's property that is funded by borrowings.	The Group utilises borrowings to enhance returns over the medium term. Borrowings will not exceed 40% of GAV (measured at drawdown).	At 30 June 2020 (30 June 2019: 34.4%)

EPRA UNAUDITED PERFORMANCE MEASURES

Detailed below is a summary table showing the EPRA performance measures in the Company.

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
EPRA NIY		5.72%
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.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of two portfolios compare.	At 30 June 2020 (30 June 2019: 4.98%)
EPRA 'Topped-up' NIY		6.97%
This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of two portfolios compare.	At 30 June 2020 (30 June 2019: 6.29%)
EPRA NAV		£67.29 million/83.58 pps
Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value the assets and liabilities within a real estate investment company with a long-term investment strategy.	At 30 June 2019 (30 June 2019: £76.32 million/94.81 pps)
EPRA Earnings/EPS		£4.36 million/5.42 pps
Earnings from operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	EPRA earnings for the year ended 30 June 2020 (30 June 2019: £4.41 million/5.47 pps)
EPRA Vacancy		0.00%
Estimated Rental Value ('ERV') of vacant space divided by ERV of the whole portfolio.	A 'pure' percentage measure of investment property space that is vacant, based on ERV.	EPRA Vacancy as at 30 June 2020 (30 June 2019: 0.00%)
EPRA Cost Ratio		21.1%
Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	EPRA Cost Ratio for the year ended 30 June 2020. The ratio is the same both including and excluding the vacancy cost. (30 June 2019: 19.2%)

EPRA NNNAV is equal to EPRA NAV as there are no adjusting items. As such this measure has not been presented.

INVESTMENT ADVISER'S REPORT

INTRODUCTION

Since our appointment as Investment Adviser on 14 May 2020, we have completed an extensive review of the Company's portfolio and current Investment Policy.

The current 18 assets, following the sale of Wet 'n' Wild on 31 July 2020, provides a long income stream on average in excess of 19 years that is c.89% linked to inflationary growth and provides investors with exposure to a diverse range of alternative market sectors.

The portfolio showed resilience during the COVID-19 pandemic related lockdown. Taking account of concessions granted to certain tenants to settle their rent monthly, the Group's rents are currently split 83% quarterly and 17% monthly. As at today, all of the quarterly rents due on the September 2020 quarter day have been collected, along with all of the monthly rents due, and the remainder of the monthly rents are due by the end of this year. The Group reported on its June and March 2020 rent collections on 13 July and 24 April 2020, respectively. Since these dates, agreements have been reached with all of the Group's tenants whose rents were in arrears. Overall, 92% and 86% of rents, in respect of the June and March quarter dates respectively, have now been collected with agreements in place for the remaining arrears to be received by September 2021.

INVESTMENT PRINCIPLES

The strategy of buying smaller lot sized assets on very long leases is coming under increasing pressure as more buyers enter that market and has resulted in acquisitions that, whilst meeting the Company's Investment Policy, provide only modest returns and limited scope for rental growth or asset management led value enhancement. Indeed, in a constantly changing landscape, many of the key features of investment quality, notably tenant credit, cannot be guaranteed to remain unchanged. Therefore, from a valuation standpoint, M7 believes the demand for very long leases in an increasingly competitive market is expected to lead to further premium pricing and will not necessarily deliver best value for shareholders. A more balanced approach between security of tenure and asset management led opportunity, in sectors that are increasingly benefiting from market shifts, is expected to achieve secure yet more attractive income returns and capital growth.

Although the income from the portfolio, as at 30 June 2020, was c.89% inflation linked to RPI or CPI, this focus limits the investment opportunities available to the Group and potentially limits its growth. As interest rates declined significantly, the demand for inflation linked real estate income increased to the point where potential buyers far outweigh sellers. The momentum towards higher prices for index linked stock is very evident and, when aligned to a tendency amongst landlords to extract longer leases from less creditworthy tenants, has taken pricing to potentially unsustainable levels. These trends have emerged in a market in which a particular cohort of investors, notably open-ended funds, have helped to drive prices upwards.

We believe that a greater emphasis should be placed by the Company on benefiting from a rapidly changing property environment in which the quality, use and flexibility of physical assets are expected to be of paramount importance. We are identifying opportunities at an attractive entry yield that are expected to benefit from the significant and accelerating movement away from high street retail to online shopping, a substantial shift in sentiment in the business space market and changes in the credit environment.

We have identified opportunities for the Group which we believe will deliver higher value and earnings, strong and secure cashflow and contribute to a stable and growing dividend whilst maintaining a relatively long WAULT.

As a result, we have recommended to the Board amendments to the Investment Policy to allow the Company to reposition the portfolio and take advantage of the opportunities that we believe exist and that we expect will achieve enhanced value for shareholders.

M7 intends, subject to shareholder approval, to focus on assets with shorter, 8-12 year leases and a greater focus on the increasingly dynamic sectors of the UK market, notably the business space and warehouse segments. The proposal is to adjust to a lower WAULT with a minimum of 12 years (from 18 years) and to invest in assets which are currently let at sustainable rents and which have the potential to be adapted over time to changing user preference and behaviour.

INVESTMENT ADVISER'S REPORT CONTINUED

MARKET OUTLOOK

UK Economic Outlook

Following a 'bounce-back' in Q2, the UK economy is now experiencing renewed pressure with rising COVID-19 cases and restrictions which may erase these gains, for example home working, localised lockdowns and the hospitality industry's 10pm curfew may act to further impair economic activity.

As a result, economic growth is forecast to continue its downward trend, resulting in a 9.2% contraction in GDP in 2020. Whilst this is a slower rate of decline than for Q2, GDP is not expected to return to pre-crisis levels until late 2022.

Government stimulus, particularly through the furlough scheme, has been successful in softening the blow, with unemployment and the reduction in UK household income both lower than expected. Despite government support, the crisis is having a material impact on the UK labour market with KPMG forecasting an average unemployment rate of 8.6% in 2020 and 11.0% in 2021.

According to Capital Economics, inflation is set to remain subdued throughout 2020 and 2021, averaging 0.9% and 1.2% respectively. This is well below the Bank of England's target rate of 2.0%. Despite price increases for some goods, the overall impact of the pandemic has been to dampen inflation as the economy declines. There is increased expectation that the Bank of England will intervene by way of further monetary stimulus.

UK Real Estate Outlook

After a strong start to the year, investment activity slowed considerably in Q2 as the impacts of the pandemic took hold in the UK. With lockdown measures imposed, physical inspections and valuations were impossible for long periods, while global travel restrictions severely limited the capacity of international investors to do business. UK investment volumes for H1 totalled £13.8 billion, which represents a 34% reduction on the equivalent period last year and is 38% lower than the 10-year H1 average.

Investment activity is recovering with initial estimates suggesting more than £2 billion of transactional activity in July alone. The all sector prime yield remained stable in June at 5.21%, indicating that some stability is returning to UK property investment.

Industrial, warehouse and regional office markets are expected to suffer the least negative impact from COVID-19, and may even benefit throughout the UK's recovery, which supports the proposed amendments to the Company's investment strategy.

Industrial and logistics continue to be in strong demand, with prices having surpassed their pre-crisis levels. The sector has benefited from strong demand fundamentals driven by the accelerated growth of e-commerce. The sector accounted for a record 23% share of total Q2 investment volume, of which 85% was distribution warehousing. Investor and occupier demand in the sector is largely attributed to the stability of rents and continued operations.

The regional office markets are characterised by a supply-demand imbalance with vacancy rates reaching a near historic low of 4.5% in H1, compared to a 10-year average of 8.0%. Many speculative developments have suffered delays caused by the COVID-19 crisis, further exacerbating an already constrained pipeline. As a result, the regional office markets have seen sustained rental growth, with annual growth of 6.7% and 4.3% seen in Leeds and Bristol respectively. Prime rental growth is expected to return in 2021, with 2.0% pa forecast over the next five years across the major regional markets.

Portfolio Activity during the Year

The following asset management initiatives were undertaken during the year:

- **Rent Reviews:** A total of eight rent reviews took place during the period with a combined uplift of £52,564 representing a 2.1% increase in contracted rent across the portfolio.
- **Wet 'n' Wild Water Park, North Shields:** The tenant Serco Leisure Operating Ltd approached the Company with an offer to purchase the property and after negotiations took place it was agreed that the property would be sold for £3,204,500 (including rent premium of £204,500) which completed at the end of June 2020. The disposal represented a 9.7% uplift on purchase price and a 12.4% premium on book value.
- **Travelodge, Swindon:** Travelodge Hotels Limited filed for a CVA and creditor and shareholder meetings were held on 19 June 2020 with landlords voting in favour of the proposal. Under the CVA, Travelodge Swindon is a Category B hotel and as such 25% of the Q2, Q3 and Q4 2020 rent and 70% of the 2021 rent will be payable. The CVA also provides a landlord break on 30 days' notice within the first five months with an option to extend the lease for a further 36 months. In addition, the Company Group will be entitled to additional cash rental payments should Travelodge exceed a baseline profitability being 66.7% of the amount by which cumulative adjusted EBITDA for the financial years 2020, 2021 and 2022 exceeds £200 million. Work started in September 2020 to replace the combustible cladding elements uncovered on the external walls of the top floors and rear lift core of the Travelodge Hotel, with non-combustible replacements and to remediate the fire/smoke stopping. Completion of the work is expected by December 2020 at a cost (including professional fees) of c.£1.2 million. The cladding was installed when the

INVESTMENT ADVISER'S REPORT CONTINUED

property was extended in 2007 and both the architect and cladding sub-contractor involved are being pursued for reimbursement of the costs.

Financial Results

Net rental income earned from the portfolio for the year was £7.35 million excluding service charge and direct recharge (1 July 2018 to 30 June 2019: £6.91 million), contributing to an operating profit before fair value changes of £5.80 million (1 July 2018 to 30 June 2019: £5.58 million).

The portfolio has seen a loss of £9.41[8] million in fair value of investment property during the year (1 July 2018 to 30 June 2019: loss of £0.17 million).

Administrative and property operations expenses, which include the Investment Manager's fee up to 9 April 2020 and other costs attributable to the running of the Group, were £1.55 million for the year excluding service and direct recharges (1 July 2018 to 30 June 2019: £1.33 million). Nevertheless, a reduction in overhead of almost 50% on an annualised basis was achieved during the final quarter of the year ended 30 June 2020, after excluding the impairments and provisions required at the year end and the one-off costs arising out of the transfer to new service providers. Ongoing charges as a percentage of net asset value for the year were 2.22% (1 July 2018 to 30 June 2019: 1.53%).

The Group incurred finance costs of £1.44 million during the year (1 July 2018 to 30 June 2019: £1.17 million). This increase results from having the loan fully drawn in during the whole year (year ended 30 June 2019: £11 million drawn down in January 2019).

The total loss before tax for the year of £5.05 million (1 July 2018 to 30 June 2019: profit before tax of £4.23 million) equates to a basic loss per share of 6.27 pence (year ended 30 June 2019: EPS of 5.26 pence).

EPRA EPS for the year was 5.42 pence which, based on dividends declared of 5.00 pence, reflects a dividend cover of 108.4% (year ended 30 June 2019: EPRA earnings of 5.47 pence, dividends declared of 5.50 pence and dividend cover of 99.5%).

Adjusted EPRA EPS for the year which equates to cash generated from operations (and therefore excludes movements in accrued rent debtors and the amortisation of loan arrangement fees) were 4.25 pence which, based on dividends declared of 5.00 pence, reflect a dividend cover of 85.0% (1 July 2018 to 30 June 2019: Adjusted earnings per share of 4.86 pence, dividends declared of 5.50 pence and dividend cover of 88.4%).

The Group's NAV as at 30 June 2020 was £67.29 million or 83.58pps (1 July 2018 to 30 June 2019: £76.32 million or 94.81pps). This is a decrease of 11.22pps or 11.84% over the year, with the underlying movement in NAV set out in the table below:

	Year ended 30 June 2020		Year ended 30 June 2019	
	Pence per share	**£ million**	Pence per share	£ million
NAV as at beginning of year/period	94.810	76.321	94.935	76.422
Portfolio acquisition costs	–	–	(1.125)	(0.906)
Change in fair value of investment property	(11.691)	(9.411)	0.909	0.732
Income earned for the year	9.702	7.810	8.580	6.907
Finance costs for the year	(1.791)	(1.442)	(1.458)	(1.174)
Other expenses for the year	(2.494)	(2.007)	(1.656)	(1.333)
Dividends paid during the year	(4.950)	(3.985)	(5.375)	(4.327)
NAV as at the end of the year	**83.586**	**67.286**	**94.810**	**76.321**

Reduction in valuation due to COVID-19

There has been an overall 3.7% decrease in fair value of the portfolio since the 31 March 2020 valuation. The properties in the hotel, leisure and automotive sectors have suffered a more significant reduction in valuation, predominantly due to COVID-19 and the knock-on effects on trading performance.

Dividends

Refer to Note 9 of the Consolidated Financial Statements for details.

Financing

As at 30 June 2020, the Group had fully utilised its £41 million loan facility with Canada Life Investments (30 June 2019: £41 million facility fully utilised). This term facility, which is repayable on 20 October 2025, allows up to 35% loan to property value at drawdown and is provided on a portfolio basis and has a loan to value covenant of 60%.

The weighted average interest cost of the Group's £41 million facility is 3.19% (2019: 3.19%).

8 the fair value decrease includes accounting adjustments relating to rent smoothing of (£1.28m), movement in finance lease obligation of (£0.05m) and a cost correction of £0.14m.

INVESTMENT ADVISER'S REPORT CONTINUED

ASSET LOCATION MAP AS AT 30 JUNE 2020

INVESTMENT ADVISER'S REPORT CONTINUED

SUMMARY BY SECTOR AS AT 30 JUNE 2020

Sector	Number of Properties	Valuation (£m)	Market Value (%)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)	(%)
Industrial	4	21.50	21	100	25.5	1.49	1.44	21
Hotel	3	19.15	18	100	15.9	1.48	1.43	21
Automotive & Petroleum	3	17.85	17	100	12.0	1.13	1.10	17
Healthcare	3	18.28	17	100	28.5	1.07	1.10	16
Student Accommodation	1	12.15	12	100	21.1	0.64	0.65	10
Leisure	3	8.65	8	100	12.7	0.57	0.58	9
Power Station	1	5.15	5	100	11.7	0.30	0.30	4
Education	1	2.03	2	100	23.6	0.13	0.13	2
Total/Average	**19**	**104.76**	**100**	**100**	**19.5**	**6.79**	**6.73**	**100**

SUMMARY BY GEOGRAPHICAL AREA AS AT 30 JUNE 2020

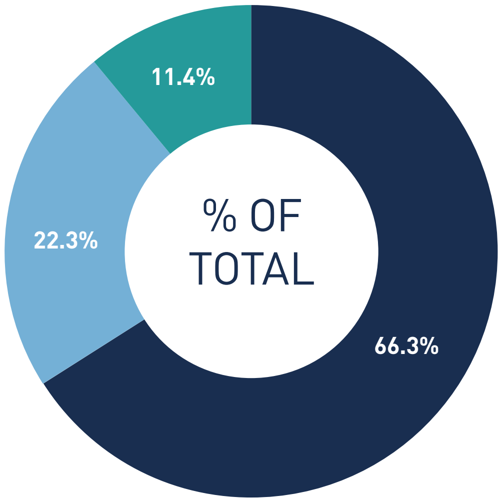
Geographical Area	Number of Properties	Valuation (£m)	Market Value (%)	Occupancy by ERV (%)	WAULT to break (years)	Gross Passing Rental Income (£m)	ERV (£m)	(%)
West Midlands	3	21.90	21	100	16.3	1.41	1.42	21
North West & Merseyside	2	21.50	20	100	37.2	1.20	1.17	17
South East excluding London	4	17.93	17	100	12.6	1.07	1.06	16
Yorkshire and Humberside	3	11.63	11	100	13.3	0.79	0.80	12
South West	2	10.90	10	100	24.7	0.79	0.81	12
Scotland	1	7.10	7	100	16.2	0.66	0.59	9
London	2	5.80	6	100	9.3	0.37	0.39	6
Eastern	1	5.15	5	100	11.7	0.30	0.30	4
North East	1	2.85	3	100	18.9	0.20	0.19	3
Total/Average	**19**	**104.76**	**100**	**100**	**19.5**	**6.79**	**6.73**	**100**

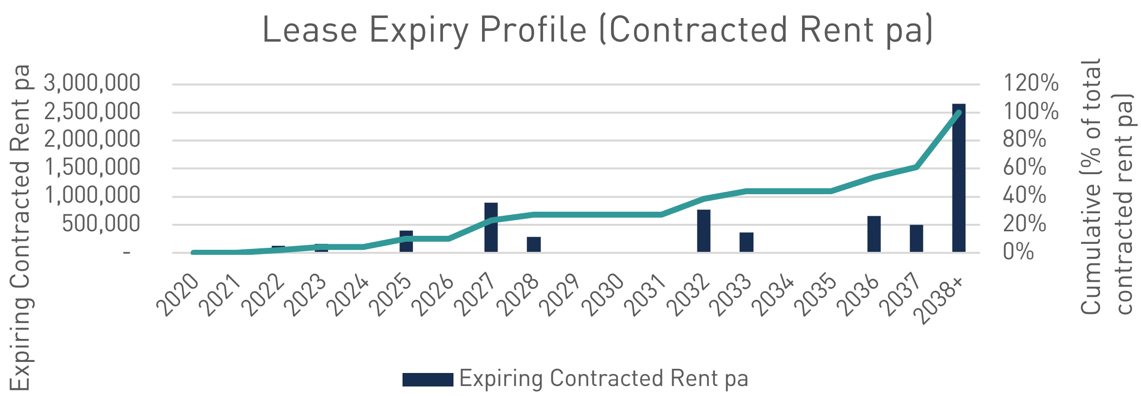
INVESTMENT ADVISER'S REPORT CONTINUED

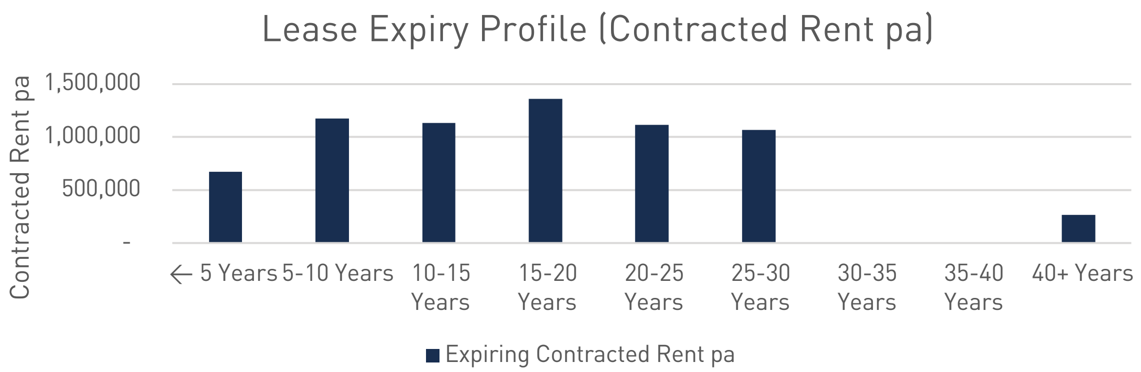
The chart below illustrates the weighting of the Group's contracted rental income, based on the type of rent review associated with each lease.

INCOME ALLOCATION BY TYPE

RPI Indexed	66.3%
CPI Indexed	22.3%
Market Review	11.4%







INVESTMENT ADVISER'S REPORT CONTINUED

PROPERTY PORTFOLIO

Property Portfolio as at 30 June 2020

	Property	Sector	Region	Market Value (£m)
1	Bramall Court, Salford	Student Accommodation	The North West & Merseyside	12.15
2	Pocket Nook Industrial Estate, St Helens	Industrial	The North West & Merseyside	9.35
3	Motorpoint, Birmingham	Automotive & Petroleum	West Midlands	8.15
4	Premier Inn, Camberley	Hotel	Rest of South East	7.95
5	Mercure City Hotel, Glasgow	Hotel	Scotland	7.10
6	Prime Life Care Home, Solihull	Healthcare	West Midlands	6.95
7	Grazebrook Industrial Estate, Dudley	Industrial	West Midlands	6.80
8	Silver Trees, Bristol	Healthcare	South West	6.80
9	Trident Business Park, Huddersfield	Automotive & Petroleum	Yorkshire and the Humber	5.50
10	Hoddesdon Energy, Hoddesdon	Power Station	Eastern	5.15
11	Prime Life Care Home, Brough	Healthcare	Yorkshire and the Humber	4.53
12	Applegreen Petrol Station, Crawley	Automotive & Petroleum	Rest of South East	4.20
13	Travelodge, Swindon	Hotel	South West	4.10
14	Pure Gym, London	Leisure	London	3.85
15	Dolphin Park, Sittingbourne	Industrial	Rest of South East	3.75
16	Wet 'n' Wild Water Park, North Shields	Leisure	North East	2.85
17	Victoria Road, Southampton	Education	Rest of South East	2.03
18	Snap Fitness, London	Leisure	London	1.95
19	Provincial Park, Sheffield	Industrial	Yorkshire and the Humber	1.60

INVESTMENT ADVISER'S REPORT CONTINUED

Tenants as at 30 June 2020

Tenant	Property	Annual Passing Rental Income (£ '000)	% of Portfolio Total Passing Rental Income	Expiry date	Break date
Meridian Steel Limited	Grazebrook Industrial Estate, Dudley	659	9.7	21/05/2027	–
Jupiter Hotels Limited	Mercure City Hotel, Glasgow	658	9.7	23/08/2036	–
Prime Life Limited	Prime Life Care Home, Solihull	651	9.6	21/11/2048	–
Mears Group Plc	Bramall Court, Salford	636	9.4	16/08/2041	–
Motorpoint Limited	Motorpoint, Birmingham	500	7.4	23/06/2037	
Premier Inn Hotels Limited	Premier Inn, Camberley	449	6.6	24/03/2037	25/03/2032
Handsale Limited	Silver Trees, Bristol	417	6.1	14/01/2049	–
Volkswagen Group United Kingdom Limited	Trident Business Park, Huddersfield	396	5.8	13/07/2025	–
Travelodge Hotels Limited	Travelodge, Swindon	350*	5.2	31/05/2041	–
Hoddesdon Energy Limited	Hoddesdon Energy, Hoddesdon	300	4.4	26/02/2050	27/02/2032
Biffa Waste Services Limited	Pocket Nook Industrial Estate, St Helens	267	3.9	31/03/2134	–
Dore Metal Services Southern Limited	Dolphin Park, Sittingbourne	262	3.9	12/09/2033	13/09/2028
Pure Gym Limited	Pure Gym, London	236	3.5	10/12/2032	11/12/2027
Petrogas Group UK Limited	Applegreen Petrol Station, Crawley	234	3.4	16/07/2033	–
Serco Leisure Operating Limited	Wet n' Wild Water Park, North Shields	200	2.9	12/05/2039	–
Sec. of State for Communities & Local Gov'mt	Pocket Nook Industrial Estate, St Helens	154	2.3	29/01/2048	30/01/2023
MSG Life Realty Limited	Snap Fitness, London	130	1.9	28/03/2033	–
YMCA Fairthorne Group	Victoria Road, Southampton	130	1.9	17/02/2044	–
Boulting Group Limited	Pocket Nook Industrial Estate, St Helens	123	1.8	04/04/2022	–
The Salvation Army Trustee Company	Travelodge, Swindon	22	0.3	17/07/2032	–
Mr Tox Recovery Specialist Limited	Pocket Nook Industrial Estate, St Helens	20	0.3	04/12/2033	05/12/2028

* For period March 2020 to December 2020 the rent is at £87,500pa; £245,000pa for 1 January 2021 to 31 December 2021; and £350,000pa from 1 January 2022

SECTION 172(1) STATEMENT

The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under s172 and forms the directors' statement required under section 414CZA of the Act.

This section describes how the Board engages with its key stakeholders, what issues are of importance to them, and how the Board has considered their interests when making its decisions. Further, it demonstrates how the Board takes into consideration the long-term impact of its decisions, and its desire to maintain a reputation for high standards of business conduct.

STAKEHOLDER	ISSUES OF IMPORTANCE	ENGAGEMENT	EFFECT OF ENGAGEMENT ON KEY DECISIONS
Shareholders			
The Group's investment objective is to deliver an attractive total return to shareholders. Shareholders are directly impacted by the performance of the Company both through equity growth and dividends.	• Strong total shareholder return • Dividend cover and target • Long-term income stream linked to inflationary growth • Robust corporate governance structure and well-performing service providers	Shareholder engagement is set out on page 31.	The effect of shareholder engagement has fed into each aspect of the Board's decision-making. Although shareholders have been directly impacted through a limited reduction of the dividend, the Board has worked strenuously to reposition the Company through the appointment of an accomplished Investment Adviser, a significant reduction in expenses and the recrafting of strategy to position the Company for growth
Service Providers			
During the year the Board has made a number of changes to its key service providers. Whilst the changes have reduced the Company's annual overhead costs, the Board is confident that the appointments will strengthen its corporate governance processes and drive progress.	• Reputation of the Company, including its impact on the community, environment, and maintaining high standards of business conduct • Fair and transparent service agreements • Effective relationship with the Board and other key service providers	• Through the appointment process of new service providers this year • Effective and consistent engagement both through formal Board meetings and regularly outside the meetings with the Board	Clear and effective strategic oversight by the Board has been crucial to enhancing the effectiveness of the Company's key service providers. The Board has worked closely with its new service providers during the transfer of responsibilities to ensure that the terms of engagement have been fair and to ensure that the Company receives best value and good quality service
Tenants			
Tenants with strong business fundamentals and profitable operations are one of the key components to ensure a consistent income stream ability to pay dividends to the Company's shareholders	• Working closely during the COVID-19 pandemic with the Group's service providers, and offering assistance where required • Fair lease terms • Long-term strategy and alignment with the tenant's business operations	• Regular dialogue with the Investment Adviser, Property Manager and other key service providers as appropriate • The appointment of the new service providers has enhanced the working relationship with the Company's tenants	During the COVID-19 pandemic, the Board recognised the challenges faced by tenants and have granted concessions for a limited period for some tenants to settle rent monthly, the objective being to provide proportional assistance to those tenants whose operations were materially impacted. Together with the Travelodge CVA, this switch initiative and has had a knock-on effect leading to a small reduction of the aggregate dividend for the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's assets consist primarily of UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the individual properties and the tenants within the properties.

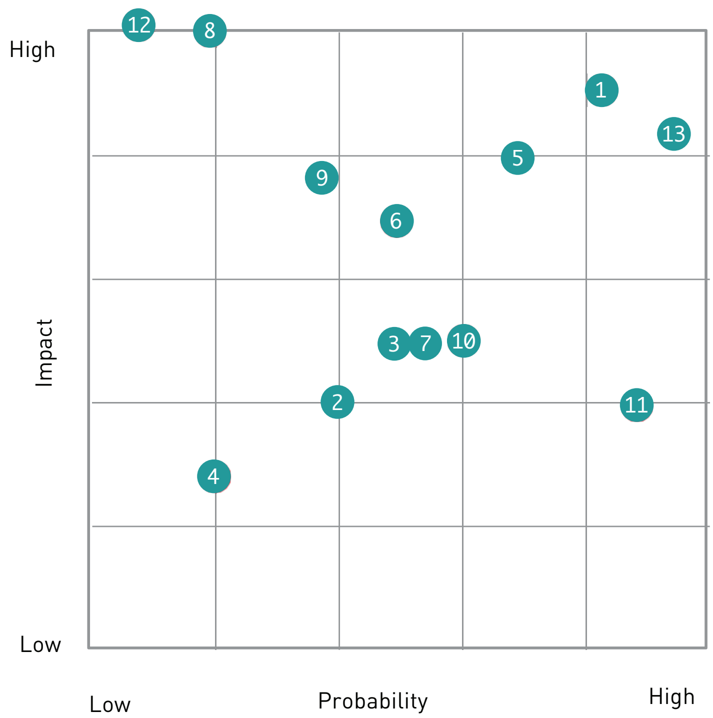
The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Alternative Investment Fund Manager ('AIFM') and, where appropriate, the Investment Adviser. The Group's ongoing risk management process is designed to identify, evaluate and mitigate the significant risks the Group faces.

Twice each year, the Board undertakes a risk review with the assistance of the Audit Committee, to assess the adequacy and effectiveness of the AIFM's and, where appropriate, the Investment Adviser's risk management and internal control processes.

The Board has carried out an assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

An analysis of the principal risks and uncertainties is set out in the table below. This does not purport to be exhaustive as some risks are not yet known and some risks are currently not deemed material but could turn out to be material in the future.

PRINCIPAL RISKS



Key

1. Tenant default
2. Portfolio concentration
3. Property defects
4. Rate of inflation
5. Property market
6. Property valuation
7. Investments are illiquid
8. Breach of borrowing covenants
9. Use of service providers
10. Dependence on the Investment Adviser
11. Ability to meet objectives
12. Group REIT status
13. Political/Economic Risks

The matrix above illustrates the assessment of the impact and probability of the principal risks identified, explanations of which are set out pages 22 to 25.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT	HOW RISK IS MANAGED	RISK ASSESSMENT
REAL ESTATE RISKS		
1. Tenant default Failure by tenants to comply with their rental obligations could affect the income that the properties earn and the ability of the Group to pay dividends to its shareholders. Where the COVID-19 pandemic has a material impact on a tenant's business, tenants may be unable to comply with rental obligations.	Our investment policy limits our exposure to any one tenant to 15% of gross assets. This prevents over reliance on a single tenant. Our maximum exposure to any one tenant (calculated by GAV) was 11.6% as at 30 June 2020. In the due diligence process prior to acquiring a property, covenant checks are carried out on tenants which are repeated on a regular basis. The Investment Adviser and Property Manager conduct ongoing monitoring and liaison with tenants to manage potential bad debt risk. During the COVID-19 pandemic the Group has, where appropriate, granted concessions for a limited period to certain tenants to settle their rent monthly.	**Probability:** High **Impact:** High **Movement:** No change.
2. Portfolio concentration Any downturn in the UK and its economy or regulatory changes in the UK could have a material adverse effect on the Group's operations or financial condition. Greater concentration of investments in any sector or exposure to the creditworthiness of any one tenant or tenants may lead to greater volatility in the value of the Group's investments, NAV and the Company's share price.	The Group has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.	**Probability:** Low to moderate **Impact:** Low to moderate **Movement:** No change
3. Property defects Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental, structural or operational defects) that may lead to a material adverse effect on the Group's profitability, the NAV and the Company's share price.	The Group's due diligence relies on the work (such as legal reports on title, property valuations, environmental, building surveys) outsourced to third parties that have appropriate Professional Indemnity cover in place.	**Probability:** Moderate **Impact:** Moderate **Movement:** Probability increase from low to moderate in light of the remedial work required at the Group's hotels in Camberley and Swindon
4. Rate of inflation Rent review provisions may have contractual limits to the increases that may be made as a result of the rate of inflation. If inflation is in excess of such contractual limits, the Group may not be able to deliver targeted returns to shareholders.	The inflation linked (RPI/CPI) leases in the portfolio have contractual rent review collars, with the lowest floor being 0%, and caps that range from 3% to no cap. The caps are in excess of RPI and CPI forecasts during the next five-year rent review cycle and therefore based on forecasts, the risk is somewhat mitigated.	**Probability:** Low **Impact:** Low to moderate **Movement:** No change

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT	HOW RISK IS MANAGED	RISK ASSESSMENT
5. Property market Any recession or future deterioration in the property market could, inter alia, (i) lead to an increase in tenant defaults, (ii) make it difficult to attract new tenants for its properties, (iii) lead to a lack of finance available to the Group, (iv) cause the Group to realise its investments at lower valuations; and (v) delay the timings of the Group's realisations. Any of these factors could have a material adverse effect on the ability of the Group to achieve its investment objective.	The Group has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk. Most of the leases provide a relatively long unexpired term and contain upward only rent reviews which are linked to either RPI or CPI. Because of these factors, the Group expects that the assets will show less volatile valuation movement over the long term.	**Probability:** Moderate to high **Impact:** Moderate to High **Movement:** Increase in probability from moderate to moderate to high. Economic growth is forecast to continue its downward trend as a result of the disruption from the COVID-19 pandemic. Such economic impact is likely to affect certain sectors of the property market in which the Company holds assets
6. Property valuation Property is inherently difficult to value due to the individual nature of each property. There may be an adverse effect on the Group's profitability, the NAV and the Company's share price in cases where properties are sold whose valuations have previously been materially overstated.	The Group uses an independent valuer (Knight Frank LLP) to value the properties on a quarterly basis at fair value in accordance with accepted RICS appraisal and valuation standards. In the context of COVID-19, there is less certainty and a higher degree of caution which should be attached to any valuation.	**Probability:** Moderate **Impact:** Moderate to High **Movement:** Increase in probability from low to moderate due to material uncertainty clause in Knight Frank's valuation as at 30 June 2020
7. Investments are illiquid The Group invests in commercial properties. Such investments are illiquid; they may be difficult for the Group sell and the price achieved on any realisation may be at a discount to the prevailing valuation of the relevant property.	The Group aims to hold the properties for long-term income.	**Probability:** Moderate **Impact:** Moderate **Movement:** No change
BORROWING RISKS		
8. Breach of borrowing covenants The Group has entered into a term loan facility. Material adverse changes in valuations and net income may lead to breaches in the LTV and interest cover ratio covenants. If the Group is unable to operate within its debt covenants, this would lead to default and the loan facility being recalled. This could result in the Group selling properties to repay the loan facility.	The Group monitors the use of borrowings on an ongoing basis through regular cash flow forecasting and quarterly risk monitoring to monitor financial covenants. The Group's gearing at 30 June 2020 was 37.0%, below our maximum gearing (on a GAV basis on drawdown) of 40% and materially below the loan's default covenant of 60%. Borrowing is carefully monitored by the Group, and as shown by the lower Q3 dividend, action will be taken to conserve cash where necessary to ensure that this risk is mitigated. There is significant headroom in the LTV and interest cover covenants in the loan agreement.	**Probability:** Low **Impact:** High **Movement:** No change

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT	HOW RISK IS MANAGED	RISK ASSESSMENT
CORPORATE RISKS		
9. Use of service providers The Group has no employees and is reliant upon the performance of third-party service providers. Failure by any service provider to carry out its obligations to the Group in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Group.	The performance of service providers in conjunction with their service level agreements is monitored regularly and the use of Key Performance Indicators where relevant. The Management Engagement and Remuneration Committee reviews the performance and continuing appointment of service providers on an annual basis.	**Probability:** Moderate **Impact:** Moderate to high **Movement:** Increase in probability from low to moderate to moderate and the impact from moderate to moderate to high. The Board has re-based this risk due to the performance of some of the Group's previous service providers
10. Dependence on the Investment Adviser The future ability of the Group to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the service providers to retain its existing staff and/or to recruit individuals of similar experience and calibre, and effectively carry out its services.	The previous Investment Manager (AEW) had responsibility and discretion for investment. As announced on 25 February 2020 the Board made changes to the Company's service providers. Following the appointment of Langham Hall Fund Management LLP as AIFM and Mason Owen as Property Manager and interim investment adviser, and, subsequently M7 as Investment Adviser on 14 May 2020 has segregated these roles, and as such, the dependence on the Investment Adviser has been significantly re-risked. The Board meets regularly with, and monitors, all of its service providers to ensure close positive working relationships are maintained.	**Probability:** Moderate **Impact:** Moderate **Movement:** No change
11. Ability to meet objectives The Group may not meet its investment objective to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the UK. Poor relative total return performance may lead to an adverse reputational impact that affects the Group's ability to raise new capital and new funds.	The Group has an investment policy to achieve a balanced portfolio with a diversified tenant base. This is reviewed by the Board at each scheduled Board meeting.	**Probability:** Low to moderate **Impact:** High **Movement:** Reduction in probability from moderate to high to low to moderate, as following the reduction of the Group's recurring annual overhead and the appointment of M7 as Investment Adviser, the Board believe the Company is better placed to meet the objectives set out at IPO

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PRINCIPAL RISKS AND THEIR POTENTIAL IMPACT	HOW RISK IS MANAGED	RISK ASSESSMENT
TAXATION RISK		
12. Group REIT status The Group has UK REIT status that provides a tax-efficient corporate structure. If the Group fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK corporation tax. Any change to the tax status or in UK tax legislation could impact on the Group's ability to achieve its investment objectives and provide attractive returns to shareholders.	The Company monitors REIT compliance through the Investment Adviser and Administrator on acquisitions and disposals and distribution levels; the Registrar and Broker on shareholdings and third party tax advisors to monitor REIT compliance requirements.	**Probability:** Low **Impact:** High **Movement:** No change.
POLITICAL/ECONOMIC RISKS		
13. Political/Economic Risks Political and macroeconomic events present risks to the real estate and financial markets that affect the Group and the business of our tenants. The economic disruption arising from the COVID-19 pandemic in addition to any arrangements made, or lack thereof, between the UK and the EU following the end of its transition period could impact the ability of the Group to raise capital and/or increase the regulatory compliance burden on the Group.	The Group only invests in UK properties with strong alternative use values and long leases so the portfolio is well positioned to withstand an economic downturn.	**Probability:** High **Impact:** Moderate to high **Movement:** Increase in probability from moderate to high to high due to the disruption caused by the COVID-19 pandemic and the uncertainties surrounding Brexit (see Emerging Risks below)

EMERGING RISKS

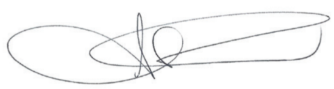
Brexit

Discussions continue with regard to the UK's trading relationship with the EU, and therefore its full impact on the Group is difficult to assess. The main negative potential effect will be on the macro economic environment which could present a risk to the performance of the Group and its ability to deliver the investment strategy. Nevertheless, the Company has a resilient balance sheet and a diversified portfolio of long let, index-linked assets which appear capable of surviving economic recession. As the Company is wholly UK based, the Group remains relatively insulated from the impact of Brexit.

The Board will continue to monitor the developing relationship between the UK and the EU and the wider potential impact of Brexit on the Group and its stakeholder base.

BOARD APPROVAL OF THE STRATEGIC REPORT

The Strategic Report has been approved and signed on behalf of the Board by:



Steve Smith
Chairman

19 October 2020

BOARD OF DIRECTORS

All appointed on 8 May 2017

Steve Smith, non-executive Chairman

Steve was chief investment officer of British Land Company PLC, the FTSE 100 REIT, from January 2010 with responsibility for the group's property and investment strategy.

He stood down from the board of British Land in March 2013 and left the company at the end of June 2013. He was formerly global head of asset management and transactions at AXA Real Estate Investment Managers where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit-linked and closed ended funds. Prior to joining AXA in 1999, he was managing director at Sun Life Properties for five years. He was formerly a non-executive director of Tritax Big Box REIT plc.

Steve is currently non-executive chairman of The PRS REIT plc and Starwood European Real Estate Finance Limited. He is also a non-executive director of Pollen Estate Trustee Company Limited and Network Rail Property Limited.

Jim Prower, non-executive Director

Jim has worked in industry and commerce since 1985, having qualified as a Chartered Accountant at Peat, Marwick, Mitchell & Co in 1979. He performed the roles of finance director and company secretary at Minty plc from 1987 to 1989, Creston Land & Estates plc from 1989 to 1995 and NOBO Group plc from 1995 to 1997, before joining Argent Group plc in the same roles. Between 2009 and 2015, he was closely involved with the development and delivery of King's Cross Central (now a joint venture between AustralianSuper, the BT Pension Scheme and Argent's management), where he was primarily responsible for raising debt for development investment and working capital, as well as reporting to the joint venturers. Between November 2012 and 31 December 2015, together with other senior Argent personnel, Jim was a member of Argent (Property Development) Services LLP which had acquired Argent Group's property development and management businesses in late 2012. Jim continues to be a partner of Argent King's Cross Limited Partnership which retains an interest in some of Kings' Cross Central.

Until March 2019, he was a non-executive director of Tritax Big Box REIT plc.

In addition to being a non-executive director of the Company, Jim acts as the Senior Independent Director and chairs the Audit Committee of Empiric Student Property plc and as non-executive Director of The PRS REIT plc.

Alan Sippetts, non-executive Director

Alan was investment director, head of investment research at Heartwood Wealth Management, a UK subsidiary of Svenska Handelsbanken AB, from 2007 to 2016, where he led the research, due diligence and governance processes of all investments and was responsible for commercial property. Alan oversaw investment and research across all asset classes in collective schemes, including funds, trusts and REITs at Lloyds Private Bank from 2001 to 2006. Prior to that, from 1992 to 2001, he was head of UK smaller companies at Legal & General Investment Management Limited where he was responsible for all aspects of UK smaller listed and pre-IPO investments. Alan started his investment career at PosTel (Hermes) Investment Management in 1987.

Alan is non-executive director at Close Asset Management (UK) Ltd and Independent Investment Consultant at discretionary manager Eden Park Investment Management Ltd. He holds a B.Sc. in Management Science-Economics from Lancaster University, where today he is honorary teaching fellow at the Management School. He is a fellow of the Chartered Institute for Securities & Investment.

GOVERNANCE

Governance

This Corporate Governance Statement comprises pages 27 to 32 and forms part of the Directors' Report.

Statement of Compliance

During the period, the Board of Alternative Income REIT plc has considered the principles and provisions of the UK Corporate Governance Code ('UK Code'), issued by the Financial Reporting Council in July 2018. The UK Code can be viewed at: https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

The Board considers that some provisions are not relevant to the Company, being an externally managed investment company. In particular, all of the Group's day-to-day management and administrative functions are outsourced to third parties and as a result, the Company has no executive directors, employees or internal operations.

The Board has reviewed the principles and provisions of the UK Code, and considers that it has complied throughout the year, except as disclosed below:

1. Principle E. The Company does not have a workforce as noted above. Similarly the Company has not applied provision 6 or the relevant parts of provision 5 and provision 33 for the same reason.
2. Provision 17 and 23. Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate nomination committee. The roles and responsibilities normally reserved for this committee are matters for the full Board.
3. Provisions 36 to 40. The Company does not have executive directors. With respect to provision 39, Directors are not appointed for a specific term as all Directors are non-executive and the Company has adopted a policy of all Directors standing for annual re-election in line with the UK Code.

Responsibilities

The Board of Directors is collectively responsible for the long-term success of the Group. It provides overall leadership, sets the strategic aims of the Group and ensures that the necessary resources are in place for the Group to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls.

The Directors are responsible for the determination of the Group's investment policy and investment strategy and have overall responsibility for the Group's activities, including the review of investment activity and performance.

The Board is also responsible for the control and supervision of the AIFM and Investment Adviser. The Board ensures the maintenance of a sound system of internal controls and risk management and reviews the overall effectiveness of systems in place. They are responsible for approval of any changes to the capital, corporate and/or management structure of the Group.

The Board does not routinely involve itself in day-to-day business decisions but there is a formal schedule of matters that requires the Board's specific approval, as set out below, as well as those which can be delegated to the Board committees and the AIFM. The Board retains responsibility for all such delegated matters.

Although the Board does not routinely carry out day-to-day responsibilities of the Group, during the year ended 30 June 2020 and up to the date of the report the Board has actively managed the transition of the Group's service providers to achieve a reduction in its total overheads.

Following the termination of AEW as the Group's Investment Manager, the appointment of M7 as Investment Adviser and the transfer of the accounting from Link Alternative Fund Administration Limited to M7, the Directors have performed extraordinary duties and dedicated additional time to facilitate the transition and induction of the new service providers. Primarily, Jim Prower, as Audit Committee Chairman has devoted significant time to the set up and reorganisation of the administration function. Subject to shareholder approval of the new Remuneration Policy, it is proposed by the Board that Jim Prower therefore be awarded an additional £15,000 in connection with this additional work. It is expected that following this report, the Directors responsibilities will resume to their expected duties following the sign-off of this Annual Report.

The AIFM is responsible for portfolio management and risk management of the Group pursuant to AIFM Directive ('AIFMD').

GOVERNANCE CONTINUED

The Directors have adopted a formal schedule of matters reserved for decision by the Board. These include the following:

1. the Group's investment/business strategy;
2. specific risk management policies including insurance, hedging, borrowing limits and corporate security;
3. contracts not in the ordinary course of business;
4. raising of new capital and major financing facilities;
5. decision taking in key areas, in particular those relating to general investment policy and investment strategies, and the power to
6. perform senior management functions in such key areas;
7. Board appointments and removals; and
8. appointment and removal of the AIFM, Investment Adviser, Auditor and the Group's other service providers.

Composition

The Board consists of a non-executive Chairman and two non-executive Directors, all of whom were considered independent on and since their appointment. All Directors are independent of the AIFM and Investment Adviser.

The Directors' other principal commitments are listed on page 26. During the year, the Board was satisfied that all Directors were able to commit sufficient time to discharge their responsibilities effectively having given due consideration to their other significant commitments.

The Directors were advised on appointment of the expected time required to fulfil their roles and have confirmed that they remain able to make that commitment. All changes in any Director's commitments outside the Group are required to be disclosed and approved prior to the acceptance of any such appointment. No external appointments were accepted during the year.

Chairman

The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He promotes a culture of openness and debate and facilitates constructive Board relations and the effective contribution of all Directors. In liaison with the Company Secretary, he ensures that the Directors receive accurate, timely and clear information. He demonstrates an objective judgement and promotes a culture of openness and constructive debate to ensure the effective contribution of all Directors, and facilitates a supportive, co-operative and open environment between the AIFM and Investment Adviser and the Directors. He is also responsible for ensuring that the views of shareholders are communicated to the Board as a whole.

The Chairman is deemed by his fellow independent Board members to be independent in character and judgement and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company. The Chairman has no significant commitments other than those disclosed in his biography on page 26.

Given the size of the Board and the Group, it is not considered necessary to appoint a senior independent director.

Board Meetings

The Group has four scheduled Board meetings each year with additional meetings arranged as necessary. In addition, the Directors meet frequently outside of scheduled Board meetings.

At each Board meeting, the Directors follow a formal agenda which is set by the Chair, and the papers are circulated in advance by the Company Secretary to ensure that the Directors receive accurate, clear and timely information to help them discharge their duties. The Board is provided with financial information, together with briefing notes and papers in relation to changes in the Group's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Group's risk management and internal control systems is set out on pages 31 to 32.

The Group's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Group's portfolio is delegated to the AIFM which manages the assets in accordance with the Group's objectives and policies. The management arrangements can be found on page 50. At each Board meeting, representatives from the AIFM and Investment Adviser attend to present reports to the Directors covering the Group's current and future activities, portfolio of assets and its investment performance over the preceding period.

GOVERNANCE CONTINUED

Board Committees

The Company has two committees, the Audit Committee and the Management Engagement and Remuneration Committee. Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate nomination committee. The Committees delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website. Further details about the Audit Committee and Management Engagement and Remuneration Committee can be found on pages 33 to 42.

Meeting Attendance

The Board's scheduled meetings are quarterly, with additional approvals of NAVs and dividends sought via email. During the year ended 30 June 2020, the number of scheduled Board meetings attended by each Director were as follows:

Director	Attendance
Steve Smith	4/4
Jim Prower	4/4
Alan Sippetts	4/4

Performance Evaluation

The Directors are aware that they need to continually monitor and improve Board performance and recognise that this can be achieved through regular Board evaluation, providing a valuable feedback mechanism for improving Board effectiveness. The Board has established a questionnaire based process for the annual evaluation of the performance of the Board, the Audit Committee and the Management Engagement and Remuneration Committee, as well as the individual Directors. This process is led by the Chairman who acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board, as appropriate. The other Directors carry out a performance evaluation of the Chairman. This evaluation process is carried out annually.

Having conducted its performance evaluation, the Board believe that it, and each of its committees, has been effective in carrying out their objectives and that each individual Director has been effective and demonstrated commitment to the role. The Board discussed the challenges and opportunities that were identified through the performance evaluation and agreed appropriate development points on which progress will be assessed in the next financial period.

Challenges and Opportunities	2021 Development Points
Stakeholder engagement should be enhanced, and attention should be given to further communication with potential new investors to meet the Company's long-term aims.	Since the appointment of a new broker and Investment Adviser, the Board is confident this will be improved and will ensure this is an item of focus of the Board at each Board Meeting.
Greater focus should be given to performance against forward looking strategy rather than on minimising cost and consolidation, although this was necessarily the Board's prime objective during the year ended 30 June 2020.	Subject to shareholder approval of the changes to the Investment Policy, as the Board is satisfied with the performance of its new service providers, performance against strategy and KPIs will be the key focus at Board Meetings to drive the Group forwards.
More time should be dedicated to providing training the Board on legal, governance and regulatory matters.	An item will be added to the Board Meeting agenda every six months to ascertain if particular training is required.

The Board does not consider that use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted and would incur an unnecessary expense. However, the option of doing so will be regularly reviewed.

Directors' Independence

The independence of the Directors was reviewed as part of the annual evaluation process. During the period, the Board consisted of three non-executive Directors, all of whom were considered independent.

GOVERNANCE CONTINUED

As described in the Directors' biographies on page 26, Steve Smith and Jim Prower share a common directorship at The PRS REIT plc, which has been the case since May 2019. The Board as a whole and Alan Sippetts in particular have considered the impact of the relationship and are satisfied that both Directors take an impartial and objective approach in undertaking their duties as Directors of the Company. This is considered annually as part of the Board evaluation process, and following this consideration, the Board continues to view Steve Smith and Jim Prower as independent, based on the criteria set out in the UK Code.

Director Induction and Training and Development

The Directors received an induction on joining the Board that covered the Group's investment activities, the role and responsibilities of a Director and guidance on corporate governance and applicable regulatory and legislative landscape.

The Directors' training and development was assessed as part of the annual effectiveness evaluation and, in any event, the Chairman regularly reviews and discusses the development needs with each Director. Each Director is fully aware that they should take responsibility for their own individual development needs and take the necessary steps to ensure they are wholly informed of regulatory and business developments. During the year, the Directors received periodic guidance and training on regulatory and compliance changes.

Furthermore, a procedure for the induction of new Directors has been established, part of which includes the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees will also have the opportunity of meeting with the Chairman and relevant persons at the AIFM and Investment Adviser. There have been no appointments during the year.

Succession Planning

The Board as a whole has given full consideration to succession planning as part of the Board's formal annual evaluation to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Board and the balance of skills and expertise, factoring in the benefits of a diverse Board, that are required in the future.

The Board considers that it has an appropriate balance of skills and experience. The Board considers that, collectively, it has substantial recent and relevant experience of the property sector, investment trusts and financial and public company management.

Tenure Policy

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and has not set a finite tenure policy. Length of service of current Directors and future succession planning will be reviewed each year as part of the Board evaluation process.

External Search Consultancy

In identifying suitable candidates for an appointment to the Board, the nomination committee may use open advertising or the services of external advisers to facilitate the search. There were no appointments during the year and therefore an external search consultancy was not required for the year ended 30 June 2020.

Diversity Policy

The Board is comprised of three male Directors who have an appropriate balance of skills and experience to meet the future opportunities and challenges facing the Group. The Board regularly reviews its composition and effectiveness as part of the annual Board evaluation process.

Appointments are made first and foremost on the basis of merit and taking into account the recognised benefits of all types of diversity, including the recommendations of the Hampton-Alexander Review. The Board ensures that diversity is an important consideration and part of the selection criteria used to assess candidates to achieve a balanced Board.

The Directors in office at 30 June 2020 and the date of this report are set out on page 26.

Re-election of Directors

In accordance with the UK Code, all Directors will submit themselves for election or re-election on an annual basis. Therefore, all Directors will be standing for re-election at the Company's 2020 AGM.

GOVERNANCE CONTINUED

Directors' Conflicts of Interest

It is the responsibility of each individual Director to avoid an unauthorised conflict of interest arising.

The Director must request authorisation from the Board as soon as he becomes aware of the possibility of an interest that conflicts, or might possibly conflict, with the interests of the Group. The Company's Articles of Association ('Articles') allow the Board to authorise such potential conflicts, and there is a procedure in place to deal with any actual, or potential, conflicts of interest. Where the conflict arises due to an appointment, the Board deals with each appointment on its individual merit and takes into consideration all relevant circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm at these meetings whether there has been any change to their position.

Relations with shareholders

Communication with shareholders is given high priority by both the Board and the Investment Adviser. The Chairman, Investment Adviser and the Company's Broker have been in regular contact with major shareholders and report the results of meetings and the views of those shareholders to the Board on a regular basis. The Chairman ensures that the Board as a whole has a clear understanding of the views of shareholders by receiving regular updates from the Company's broker, which are tabled at the Company's Board Meetings.

All shareholders are encouraged to attend and vote at AGMs, during which the Board and the Investment Adviser will be available to discuss issues affecting the Company and answer any questions. Any shareholder wishing to contact the Company should address their query to the Company Secretary at the registered office address on page 92.

Significant vote against at 2019 AGM

At the Company's AGM held on 5 November 2019, there was a significant number of proxy votes against resolution 3, the re-election of Steve Smith as a Director. Resolution 3 was an ordinary resolution that passed on a show of hands, receiving 27.89% of proxy votes against the resolution in advance of the meeting. Following engagement by the Company the shareholder explained that they had voted against the resolution based on guidance by the Institutional Shareholder Services (ISS). ISS had raised a concern with the number of chairmanships held by Steve Smith which could compromise his ability to commit sufficient time to his role in the Company. Nevertheless ISS had recommended in favour of the reappointment on the basis that the external commitments were investment trusts and therefore a degree of flexibility was considered appropriate.

The Board and Company's Broker has continued to engage with the relevant shareholder and it has been noted that the shareholder had raised concerns with regards to the scale of the Group. As such the Board and Company's broker will continue to engage with the shareholder focussing on the strategic changes, including the proposed change to the Investment Policy as set out on page 6.

Internal Control Review

The Board is responsible for the systems of internal controls relating to the Group including the reliability of the financial reporting process and for reviewing the systems' effectiveness. The Directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process has been established for identifying, evaluating and managing the risks faced by the Group, including emerging risks. This process, together with key procedures established with a view to providing effective financial control, was in place both during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made, and which is issued for publication, is reliable, and that the assets of the Group are safeguarded.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss. The Directors have carried out a review of the effectiveness of the systems of internal control as they have operated over the period and up to the date of approval of the Annual Report and Financial Statements.

GOVERNANCE CONTINUED

As previously announced, in tandem with the termination of AEW's appointment as Investment Manager earlier this year, certain other service providers were also replaced. As part of the handover process, in mid-February 2020, a review was undertaken in advance of the conclusion (which took effect in early June 2020) of Link Alternative Fund Administration Limited's ('Link') (three year) appointment. During and subsequent to this review, certain internal control shortcomings of both Link's bookkeeping and AEW's oversight of Link's responsibilities were identified. As a result, inter alia, some of the comparatives in the consolidated and the individual group companies' statutory financial statements in respect of the year ended 30 June 2019 have been restated (see note 6 to the Company's financial statements), and a provision – albeit immaterial in the context of the consolidated financial statements – for an unreconciled difference needed to be included within the result for the year ended 30 June 2020.

Internal control assessment process

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Group's overall investment objective.

In arriving at its judgement of what risks the Group faces, the Board, through the Audit Committee, has considered the Group's operations in light of the following factors:

1. the nature and extent of risks which it regards as acceptable for the Group to bear within its overall business objective;
2. the threat of such risks becoming reality;
3. the Group's ability to reduce the incidence and impact of risk on its performance;
4. the cost to the Group and benefits related to the review of risk and associated controls of the Group; and
5. the extent to which third parties operate the relevant controls.

A risk register has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate against them. This risk matrix is reviewed twice a year by the Audit Committee.

The principal risks that have been identified by the Board are set out on pages 21 to 25.

The Board reviews financial information produced by the Administrator on a regular basis.

Most functions for the day-to-day management of the Group are sub-contracted, and the Directors therefore obtain assurances and information from key third-party suppliers regarding the internal systems and controls operated in their respective organisations. In addition, third parties are requested to provide a copy of their report on internal controls each year, which are reviewed by the Audit Committee.

REPORT OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee Report for the year ended 30 June 2020.

Committee Membership

The Audit Committee comprises Jim Prower and Alan Sippetts.

The Audit Committee is chaired by Jim Prower, who has recent and relevant financial experience. The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective manner and has competence relevant to the sector in which it operates.

Meetings

The Audit Committee met three times during the year under review, and the meetings were attended by each member as follows:

Director	Attendance
Jim Prower	3/3
Alan Sippetts	3/3

Role of the Committee

The Committee assists the Board in discharging its responsibilities with regard to financial reporting, external audit and internal controls, including:

1. monitoring the integrity of the financial statements of the Group, including its annual and half yearly reports and reviewing significant financial reporting issues and the judgements which they contain;
2. keeping under review the adequacy and effectiveness of the Group's risk management systems and reviewing and approving the statements to be included in the annual report concerning internal controls and risk management;
3. making recommendations to the Board in relation to the appointment/re-appointment or removal of the Auditor and approving its remuneration and terms of engagement;
4. reviewing and monitoring the Auditor's independence, objectivity and effectiveness; and
5. approving any non-audit services to be provided by the Auditor and monitoring the level of fees payable in that respect.

Performance Evaluation

Refer to page 29 of the Corporate Governance section detailing how the review of the Committee's performance has been conducted, and the results of such evaluation.

Activities

The Committee meets at least twice a year to consider the annual report and interim report and any other matters as specified under its terms of reference. During the year and up to the date of this report, the Audit Committee has recommended the re-appointment of KPMG LLP as Auditor to the Board; reviewed financial results for publication; reviewed the performance and effectiveness of the Auditor and considered its re-appointment and remuneration; reviewed the non-audit services provided by the Auditor and the associated fees incurred; reviewed the internal controls and risk management systems of the Group and its third-party service providers; and reviewed the Committee's terms of reference (which are available on the Group's website).

Significant issues considered by the Committee

Valuation

The Committee determined that a key area of consideration in relation to the Consolidated Financial Statements of the Group was the valuation of the investment properties, as it is fundamental to the Group's statement of financial position and audited results. The 19 properties in the portfolio as at 30 June 2020 were externally valued by qualified independent valuers (using the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards) and whilst comparable market transactions provide valuation evidence, there are assumptions which involve significant levels of judgement. The Committee considered the valuations of the Group's portfolio at 30 June 2020 and

REPORT OF THE AUDIT COMMITTEE CONTINUED

these were discussed with the AIFM, Investment Adviser and Auditor during the audit of the financial statements. Details of the valuation methodology are contained in Note 10 to the Consolidated Financial Statements. The Committee considered the material uncertainty clause ('MUC') included in the 30 June 2020 valuation undertaken by its independent valuer Knight Frank. The Committee satisfied itself that the inclusion of the MUC did not mean that the valuation could not be relied upon, and that the valuation would be kept under frequent review. Knight Frank's valuation as at 30 September 2020 does not include a material uncertainty clause.

Brexit

The Committee considered the United Kingdom's withdrawal from the EU and the potential effect on the macro economic environment which would present a risk to the performance of the Group and its ability to deliver the investment strategy. The Committee assessed a full range of reasonably possible scenarios and satisfied itself that whilst the UK's future trading relationship with the EU remains uncertain the Company has a resilient balance sheet and a diversified portfolio of long let, index-linked assets which appear capable of surviving economic recession. Further, as the Company is wholly UK based, the Group remains relatively insulated from the impact of Brexit.

Internal controls

The Committee carefully considers the internal control systems by monitoring the services and controls of its third-party service providers.

The Committee reviewed and updated the risk matrix. It received reports on internal control and compliance from the Investment Adviser and the Group's other major service providers and, other than the issues referred to in the final paragraph of the Internal Controls Review section on pages 31 to 32, no significant matters of concern were identified.

Internal Audit

The Audit Committee has considered whether establishing an internal audit function would be appropriate and has concluded that, considering the structure and nature of the Group's activities, it has concluded that the function is unnecessary. The Committee believes that the existing system of monitoring and reporting by third parties remains appropriate and adequate and will review this position on an annual basis and make appropriate recommendations to the Board.

Going concern and long-term viability of the Group

The Committee considered the Group's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the financial statements have been prepared on a going concern basis.

The Committee also considered the longer-term viability statement within the Annual Report for the year ended 30 June 2020, covering a three year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Group's long-term viability. The Group's viability statement can be found on page 49.

Independence and objectivity of the Auditor

It is the Committee's responsibility to monitor the performance, objectivity and independence of the Auditor and this is evaluated by the Committee each year. In evaluating KPMG's performance, the Committee examines five main criteria – robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice. Having carried out a review the Committee is satisfied with the Auditor's performance and that as the Auditor did not carry out non-audit services the objectivity and independence of the Auditor were not compromised.

External Audit Process

The Committee meets at least twice a year with the Auditor, once at the planning stage before the audit and again after the audit at the reporting stage. The Auditor provides a planning report in advance of the annual audit, and a report on the annual audit. The Committee has an opportunity to question and challenge the Auditor in respect of both of these reports.

In addition, at least once a year, the Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the AIFM and Investment Adviser and other service providers. After the annual audit, the Committee will review the audit process and consider its effectiveness.

REPORT OF THE AUDIT COMMITTEE CONTINUED

Re-appointment of the Auditor

Following consideration of the performance of the Auditor, the services provided during the period and a review of its independence and objectivity, the Committee has recommended to the Board that the re-appointment of KPMG LLP as the Company's Auditor be proposed to shareholders at the forthcoming AGM. KPMG LLP has expressed its willingness to continue as the Company's Auditor.

The Auditor was appointed as external auditor to the Group on 6 June 2017, with Matthew Williams assuming the role of Senior Statutory Auditor in respect of the audit for the year ended 30 June 2020. In line with EU requirements, it is intended that the external audit will be re-tendered at least every ten years.

Audit Fees and Non-Audit Services

The Committee has sole responsibility for agreeing the audit fee in consultation with the Investment Adviser and taking into account the scope of the audit.

The Committee has a policy on the engagement of the Auditor to supply non-audit services. All non-audit services are reviewed by the Committee which makes recommendations for the provision of each non-audit service, and ensures that the statutory auditor is not engaged to perform work that is prohibited under EU law.

The Auditor is permitted to provide non audit-related services where the work involved is closely related to the work performed in the audit. These include:

1. reviews of interim financial information;
2. reporting on internal financial controls when required by law or regulation;
3. reporting required by law or regulation to be provided by the Auditor; and
4. prospectus/capital markets reporting.

The policy was reviewed and its application monitored by the Committee during the year and it was agreed that the policy remained appropriate for the Company.

An analysis of audit fees is set out below:

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Audit		
Statutory audit of Annual Report and Accounts	105	72
Statutory audit of Subsidiary Accounts	15	12
	120	84
Non-audit	–	–
Total fees paid to KPMG LLP	120	84
Percentage of total fees attributed to non-audit services	0%	0%

Jim Prower
Audit Committee Chairman

19 October 2020

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE

I am pleased to present the Management Engagement and Remuneration Committee Report for the year ended 30 June 2020.

Committee Membership

The Management Engagement and Remuneration Committee comprises all Directors and is chaired by Alan Sippetts.

Meetings

The Management Engagement and Remuneration Committee held one scheduled meeting during the year, and the meetings were attended by each member as follows:

Director	Attendance
Alan Sippetts	1/1
Jim Prower	1/1
Steve Smith	1/1

Role of the Committee

The Committee is responsible for reviewing the appropriateness of the continuing appointment of the AIFM and Investment Adviser, ensuring the terms and conditions of the AIFM and Investment Adviser's continuing appointment align with the investment policy and investment objective of the Group and setting Directors' remuneration. The remuneration of the Chairman is considered by the Committee in his absence.

Matters Considered in the Year

The Committee receives reports from external advisers and from the AIFM and Investment Adviser, as required, to enable it to discharge its duties. The main activities undertaken during the year, and to the date of this report, were that the Committee:

1. considered and approved the Directors' remuneration and agreed that it remained appropriate;
2. reviewed the ongoing charges and agreed that these were at an appropriate level;
3. reviewed the Remuneration Policy;
4. satisfied itself that the AIFM and Investment Adviser agreements are fair and that its terms remain competitive and sensible for shareholders and that matters of compliance are under proper review;
5. reviewed the performance of other third-party service providers and made recommendations to the Board regarding these; and
6. reviewed the Committee's terms of reference (which are available on the Group's website).

Performance Evaluation

Refer to the above Corporate Governance section detailing how the review of the Committee's performance has been conducted, and the results of such evaluation.

Review of Service Providers

A number of changes to the Company's service providers, as announced on 25 February 2020 and 18 May, have been made with the objective of reducing the annual overhead whilst improving the efficiency and effectiveness of the service received.

The Committee reviews the ongoing performance and the continuing appointment of all service providers of the Group including the AIFM and Investment Adviser on an annual basis. The Committee also considers any variation to the terms of all service providers' agreements and reports its findings to the Board.

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Continuing Appointment of the AIFM and Investment Adviser

The Committee has reviewed the continuing appointment of the AIFM and Investment Adviser and the committee are satisfied that their appointment remains in the best interests of shareholders as a whole.

Annual Statement on Directors' Remuneration

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report on behalf of the Board for the year ended 30 June 2020. It is set out in two sections in line with legislative reporting regulations:

- Directors' Remuneration Policy – This sets out our Remuneration Policy for Directors of the Company and will be subject to a binding shareholder vote at the Company's 2020 AGM.
- Annual Report on Directors' Remuneration – This sets out how the Directors were paid for the year ended 30 June 2020. There will be an advisory shareholder vote on this section of the report at our 2020 AGM.

The Group does not have any executive Directors or employees, and, as a result, operates a simple and transparent remuneration policy that reflects the non-executive Directors' duties, responsibilities and time spent.

Full details of the Directors' Remuneration Policy, as well as how Directors were paid for the year ended 30 June 2020, are set out on pages 38 to 42.

Changes to the Directors' Remuneration Policy

As provided for in Article 108 of the Articles of Association and page 64 of the IPO Prospectus, the revised Remuneration Policy now includes a provision for an additional fee for special duties or additional services undertaken by a Director outside of his ordinary duties. Such provision had been omitted from the current Remuneration Policy in an administrative error. As was envisaged at IPO, and included in the Company's Articles of Association, this is to allow for flexibility, where it is considered appropriate, for the Director to provide such additional services as is required for the effective functioning of the Company or in furtherance of the Company's aims. The additional fee element recognises the additional time commitment required by a Director to provide such services where doing so would be in the best interest of the Company, for example, as a result of a Directors specific knowledge of the Company or for cost efficiencies.

There are no other changes to the policy other than presentational amendments that have been made to display the policy in a simple and transparent manner.

Discretion exercised under the Directors' Remuneration Policy

Subject to the shareholder vote at the 2020 AGM, an additional service fee will be paid to Jim Prower in recognition of the significant time spent undertaking additional work in respect of the transition between third-party service providers. The Board believe that these services have been in the best interest of the Company.

We value engagement with our shareholders and for the constructive feedback we receive and look forward to your support at the forthcoming AGM.

Alan Sippetts
Management Engagement and Remuneration Committee Chairman

19 October 2020

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Directors' Remuneration Policy

The Directors' remuneration policy was last approved at the Company's 2018 AGM. In accordance with section 439A of the Companies Act 2006, a resolution to approve this Directors' Remuneration Policy will be proposed at the Annual General Meeting of the Group to be held on 26 November 2020. If the resolution is passed, the provisions of the policy will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if the Remuneration Policy is varied, in which event shareholder approval for the new Remuneration Policy will be sought.

Overview

All Directors are non-executive, and the Company follows the recommendation of the UK Code that non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be determined with reference to comparable organisations and appointments. The Group has no employees.

Policy Table

COMPONENT	OPERATION	LINK TO STRATEGY
Annual Fee	The Board has set three levels of fees: one for a Director and additional fees for the Chairman of the Audit Committee and the Chairman of the Board. The approval of shareholders would be required to increase the aggregate limit of £400,000 for Directors' remuneration, as set out in the Company's Articles.	The level of the annual fee has been set to attract and retain high calibre Directors with the skills and experience necessary for the role. The fee has been benchmarked against companies of a similar size in the sector, having regard to the time commitment and expected contribution to the role.
Additional Service Fee	The Company's Articles provide that if any Director shall perform or render any special duties or services outside his ordinary duties as a Director, he may be paid such reasonable additional remuneration as may be considered appropriate.	The additional fee offers flexibility for a Director to be awarded additional remuneration to adequately compensate a Director for any special services or services outside his ordinary duties where this is considered appropriate for the effective functioning of or in furtherance of the Company's aims.
Other Benefits	The Company's Articles provide that Directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.	In line with market practice, the Company will reimburse the Directors for expenses to ensure that they are able to carry out their duties effectively.

Fees are reviewed annually in accordance with the above policy. The fee for any new Director appointed to the Board will be determined on the same basis.

Annual fees for the year ended 30 June 2020

Directors' Fee Levels	Annual fees for the year ended 30 June 2020 (£)
Chairman	30,000
Chairman of the Audit Committee	25,000
Director	20,000

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Service Contracts

Directors do not have service contracts with the Company but are engaged under letters of appointment, copies of which are available for inspection at the Company's registered office. None of the Directors has a contract of service with the Group.

Directors Term of Office

Directors are not appointed for a specific term and will stand for annual re-election at the Company's annual general meetings.

Loss of Office

These specifically exclude any entitlement to compensation upon leaving office for whatever reason.

Relations with Shareholders

The Company is committed to ongoing shareholder dialogue and any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' remuneration policy as a part of any review of Directors' fees.

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Directors' Remuneration Report

The Management Engagement and Remuneration Committee reviews fees on an annual basis. During the year ended 30 June 2020, the annual fees were set at the rate of £30,000 for the Chairman, £25,000 for the Audit Committee Chairman and £20,000 for a Director. No changes to these fee levels are proposed for the year ending 30 June 2021.

An ordinary resolution will be put to shareholders at the forthcoming AGM to receive and approve the Directors' Remuneration Report.

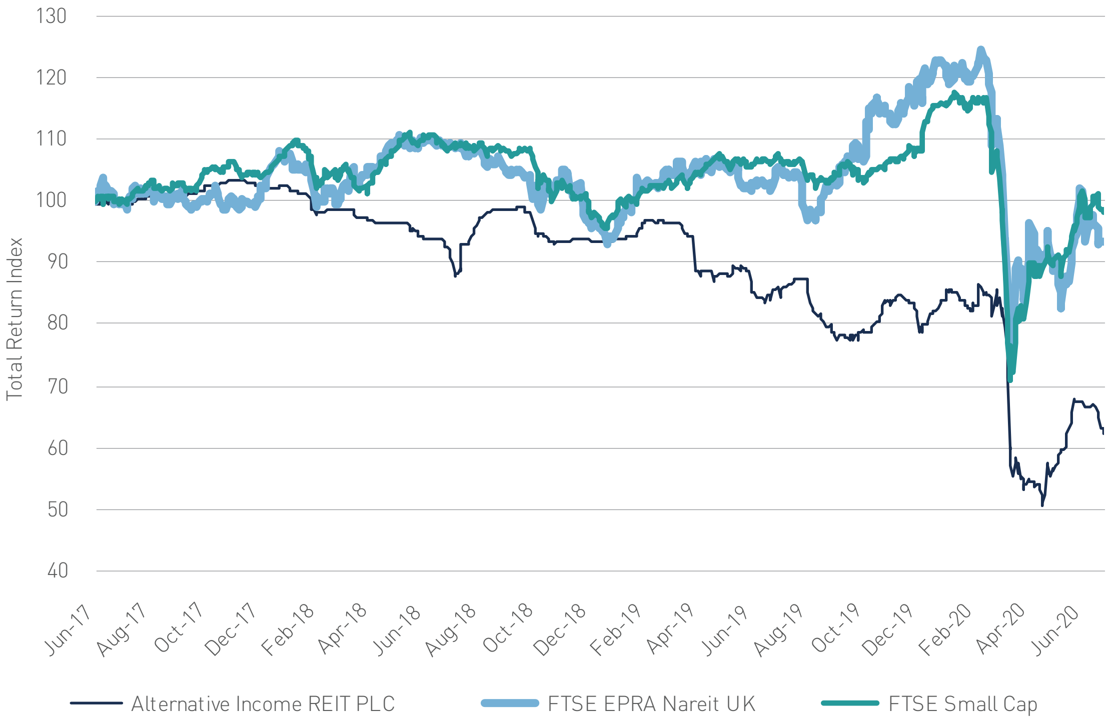
Voting at 2019 AGM

The Directors' remuneration report for the period ended 30 June 2019 was approved by shareholders at the AGM held on 5 November 2019 on a show of hands. The proxy votes received prior to the AGM were as follows:

Voting	Remuneration Report
For – number of votes cast	40,297,893
Against – number of votes cast	49,429
Total votes cast	40,300,693
Number of votes withheld	2,800

Performance of the Company

The chart below compares the share price total return (assuming all dividends re-invested) to shareholders compared with the total return on the FTSE EPRA Nareit UK and FTSE Small Cap Indices over the period since inception of the Company. These indices have been chosen as they are considered to be an appropriate benchmark against which to assess the relative performance of the Company.



REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Single Total Figure (audited information)

The remuneration paid to the Directors during the year ended 30 June 2020 is set out in the table below:

Director	Total Fixed Remuneration: Annual Fee for the year ended 30 June 2020 £'000	Remuneration: Additional Fee for the year ended 30 June 2020 £'000	Total 2020 £'000	Total 2019 £'000
Steve Smith	30	–	30	30
Jim Prower	25	15*	40	25
Alan Sippetts	20	–	20	20
Total	**75**	**15**	**90**	**75**

*An additional fee of £15,000 has been accrued in respect of the year ended 30 June 2020, and will be paid to Jim Prower in recognition of the significant time spent undertaking additional services in respect of managing the transition between third party service providers during the year. This additional fee is subject to shareholder approval of the resolution to adopt the proposed Remuneration Policy as set out on pages 38 to 39.

Relative Importance of Spend on Pay

The table below sets out, in respect of the year ended 30 June 2020, the remuneration paid to the Directors; the management fee and expenses which have been included to give shareholders a greater understanding of the relative importance of spend on pay; and distributions to shareholders by way of a dividend.

	Year ended 30 June 2020 (£'000)	Year ended 30 June 2019 (£'000)
Directors' remuneration	90	75
Management fee and expenses paid to AEW	408	544
Dividends paid	3,985	4,327

Directors' Interests (audited information)

Neither the Company's Articles, nor the Directors' letters of appointment require a Director to own shares in the Company.

The interests of the Directors and their persons closely associated in the equity of the Company at 30 June 2020 are shown in the table below.

	Year ended 30 June 2020 Number of shares	Year ended 30 June 2019 Number of shares
Steve Smith	240,000	100,000
Jim Prower	21,500	21,500
Alan Sippetts	34,006	20,000

There have been no changes to Directors' interests between 30 June 2020 and the date of this Report.

None of the Directors or persons closely associated with them had a material interest in the Group's transactions, arrangements or agreements during the year.

REPORT OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE CONTINUED

Consideration of Shareholder Views

During the year, the Company did not receive any communications from shareholders specifically regarding Directors' pay. The resolutions to approve the Directors' Remuneration Report were passed at the Annual General Meeting on 5 November 2019.

Approval

The Directors' Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Alan Sippetts
Management Engagement and Remuneration Committee Chairman

19 October 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Diversity

As an externally managed business, the Company does not have any employees or office space. As such the Group does not operate a diversity policy with regards to any administrative, management and supervisory functions. A description of the Board's policy on diversity can be found on page 30.

Employees

The Group has no employees and accordingly no requirement to report separately in this area as the management of the portfolio has been delegated to the AIFM and Investment Adviser.

The AIFM and Investment Adviser are equal opportunities employers who respects and seeks to empower each individual and the diverse cultures, perspectives, skills and experiences within their workforce.

Human Rights

The Group is not within the scope of the Modern Slavery Act 2015 because it has not exceeded the turnover threshold and therefore no further disclosure is required in this regard.

Business Relationships

As well as the critical day-to-day portfolio management, the Group has a set of service providers that ensure the smooth running of the Group's activities. The Group's key service providers are listed on page 92, and the Management Engagement and Remuneration Committee annually review the effectiveness and performance of these service providers, taking into account any feedback received.

The Group, AIFM and Investment Adviser and other third-party service providers maintain high standards of business conduct by acting in a collaborative and responsible manner with all its business partners that protects the reputation of the Group as a whole. During the year, the Company made changes to its service providers including the appointment of M7 as the Group's Investment Adviser. An explanation of these changes is set out on page 36.

Environment

As an investment company, the Group's own direct environmental impact is minimal and greenhouse gas ('GHG') emissions are negligible, and as such the Company has not introduced measures to achieve energy efficiency. Information on the GHG emissions in relation to the Group's property portfolio are disclosed on pages 43 to 44.

Greenhouse Gas Emissions

The Group has followed UK Government environmental reporting guidelines and used the UK Government 2019 greenhouse gas reporting conversion factors for company reporting to identify and report relevant GHG emissions over which it has operational control for the 12-month period to 30 June 2020.

EVORA Global Limited (EVORA), an independent consultancy specialising in the application of sustainability in commercial real estate, has been appointed to calculate the GHG statement and provide verification on the approach used.

Scopes

GHG emissions have been reported against the following 'Scopes', as defined by the GHG Protocol and where relevant:

Scope 1 – direct emissions from owned vehicles, controlled boilers and fugitive emissions from air conditioning systems under landlord control.

Scope 2 – indirect emissions from electricity purchased by the Group and consumed within real estate assets owned by the Company.

Scope 3 – indirect emissions from electricity and gas purchased/consumed within the Group's assets, by tenants, where the tenant is counterparty to the energy supply.

Scope 1 and 2 are not relevant to the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Statement of GHG emissions

The table below shows relevant GHG emissions per sector and for the Group overall in the year to 30 June 2020. The approach taken follows guidance provided by the GHG Reporting Guidelines (BEIS, 2019) and EPRA Best Practice Recommendations on Sustainability Reporting 2017.

		Absolute tonnes of Carbon Dioxide equivalent (tCO_2e)		Like-for-Like comparison of Carbon Dioxide Equivalent (tCO_2e)*	
Sector	**Scope**	**2018/19**	**2019/20**	**Difference (tCO2e)**	**% Change**
Industrial, Warehouse	Scope 3 – Gas	5.86	N/A	N/A	N/A
	Scope 3 – Elec.	115.87	115.62	0.25	-0.22%
Total	Scope 3 – Gas	5.86	N/A	N/A	N/A
	Scope 3 – Elec.	115.87	115.62	0.25	-0.22%
	Scope 3 – Total	121.73	115.62	0.25	00.22%

*Like-for-like comparison is only relevant for electricity usage.

Statement of Energy Usage

The table below sets out the energy use per sector and for the entity overall. The approach follows guidance provided by the GHG Reporting Guidelines (BEIS, 2019) and the EPRA Best Practice Recommendations on Sustainability Reporting 2017.

		Absolute energy usage (kWh)		Like-for-like energy usage (kWh)*	
Sector	**Energy Source**	**2018/19**	**2019/20**	**Difference (kWh)**	**% Change**
Industrial, Warehouse	Gas	31,865	N/A	N/A	N/A
	Electricity	409,341	451,632	42,290	+10%
	Energy	441,206	451,632	10,425	+2%
Total	Gas	31,865	N/A	N/A	N/A
	Electricity	409,341	451,632	42,290	+10%
	Energy	**441,206**	**451,632**	**10,425**	**+2%**

*Like-for-like comparison is only relevant for electricity usage.

Intensity Ratios

In addition to reporting relevant GHG emissions, the Group has chosen to report intensity ratios, where appropriate. An intensity measure is reported for assets within the like-for-like portfolio, where:

- No major renovation or refurbishment has taken place (i.e. affecting more than 50% of the building by area of number of occupants);
- Occupancy is at least 75%; or
- At least 12 months' data is available.

Normalisation is considered in line with the Real Estate Environmental Benchmark 2017 methodology against the following criteria:

- Industrial, Warehouse – External areas energy consumption divided by external area (m^2).

No meters within the Company have met criteria and therefore no intensity calculation has been undertaken.

Assurance statement

The Group's GHG emissions have been calculated and verified by an independent third-party in accordance with the principles of ISO 14064. A full copy of the methodology used, including scope, source or data and conversion factors, is available upon request.

DIRECTORS' REPORT

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 45 to 48, and incorporates the Corporate Governance Statement on pages 27 to 32. In accordance with s414c(11) of the Companies Act 2006, information required to be disclosed in respect of future developments and principal risks and uncertainties is included within the Strategic Report.

Principal Activity

The Company is a closed-ended investment company and is a Real Estate Investment Trust. The Company is a holding company of two subsidiaries. The Group invests in properties in accordance with the Investment Policy and Investment Objective.

Change of Name

The Company's name was changed from AEW UK Long Lease REIT plc to Alternative Income REIT plc on 2 March 2020.

Results and Dividends

The interim dividends paid by the Company are set out in Note 9 of the Consolidated Financial Statements. A summary of the Group's performance during the year, significant events following the year end and future developments is set out in the Strategic Report on pages 1 to 25.

Prior Year Restatement

The directors considered it necessary to correct certain elements of the comparative information for the disclosures in respect of future minimum lease income which was understated by £7.57 million and an amount of £6.84 million was misclassified between two to five years and more than five years.

Further during the process of the preparation of the Company's financial statements for the year ended 30 June 2020, it was noted that the registered owner of Silver Trees, Nailsea, Bristol was Alternative Income Limited instead of the Company. Transactions relating to the property from the acquisition date of January 2019 to 30 June 2019 were incorrectly accounted for in the books of the Company. This correction represents a prior period accounting adjustment which has therefore been accounted for retrospectively in the financial statements (see note 6 of the Company's financial statements for details). This has no impact on the consolidated financial statements.

Directors

The Directors in office at the date of this report are shown on page 26.

Power of Directors

The Directors' powers are determined by UK legislation and the Articles. The Articles may be amended by a special resolution of the members. The Directors may exercise all of the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members. The Articles govern the appointment and replacement of Directors.

Indemnity Provisions

Save for such indemnity provisions in the Company's Articles, there are no qualifying third party indemnity provisions in force. The Board has agreed to a procedure by which Directors may seek independent professional advice if necessary and at the Company's expense. The Company has also arranged for the appropriate provision of Directors' and Officers' Liability Insurance.

Going Concern

The Group has considered its cash flows, financial position, liquidity position and borrowing facilities.

The Group's unrestricted cash balance as at 30 June 2020 was £2.29 million, of which £1.9 million was readily available for potential investments. As at 30 June 2020, the Group had headroom against its borrowing covenants. The Group is permitted to utilise up to 40% of GAV measured at drawdown with a Loan to GAV of 37.0% as at 30 June 2020.

A 'severe but plausible downside' scenario has also been projected. While rent collections have been strong, this scenario anticipates further rent deferrals and write-offs where tenants would have difficulty paying rents from

DIRECTORS' REPORT CONTINUED

operational cashflows. In this scenario the Group still has adequate headroom against the interest cover covenant and positive cash balances. Further detail of the assumptions made in assessing the adaption of Group's going concern basis can be found in Note 2.4.

The Group benefits from a secure, diversified income stream from leases which are not overly reliant on any one tenant or sector. As a result, the Directors believe that the Group is well placed to manage its financing and other business risks. The Directors believe that there are currently no material uncertainties in relation to the Group's and Company's ability to continue for a period of at least 12 months from the date of these financial statements. The Board is, therefore, of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

Continuation Vote

At the Annual General Meeting to be held in 2022, the Directors shall propose an ordinary resolution to members that the Company continues in existence. If the resolution is passed at such Annual General Meeting, then the Directors shall propose the same resolution at every fifth Annual General Meeting thereafter.

Subsidiary companies

Details of the Company's subsidiaries are set out in Note 17 to the Consolidated Financial Statements.

Management Arrangements

Langham Hall Fund Management LLP was appointed as the Group's AIFM effective 9 April 2020, and the terms of the AIFM Agreement are set out on page 50. M7 was appointed as Investment Adviser effective 14 May 2020, and M7's role is to provide the Company with advice, support and services including strategy, debt advisory, reporting, fund accounting and investment advisory services together with asset management, operational advice, budgeting and planning for the Group's portfolio. M7 also has delegated authority to act within defined parameters and where decisions outside pre-approved criteria are required, specific approval will be agreed with the Company. Further details can be found in Note 21 of the Group's Consolidated Financial Statements. Between 9 April 2020 and 14 May 2020, Mason Owen and Partners Limited acted as the Investment Adviser.

Prior to 9 April, AEW UK Investment Management LLP was the Group's Investment Manager and details of its appointment are set out in Note 21 of the Group's Consolidated Financial Statements.

Financial Risk Management

The financial risk management objectives and policies can be found in Note 19 to the Consolidated Financial Statements.

Share Capital

At 30 June 2020, and as at the date of this report, there are 80,500,000 Ordinary Shares in issue, none of which are held in treasury.

Purchase of Own Shares

At the Company's AGM on 5 November 2019, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Shares in issue. No shares have been bought back under this authority during the year, which expires at the conclusion of the Company's 2020 AGM. A resolution to renew the Company's authority to purchase (either for cancellation or for placing into Treasury) up to 8,050,000 Ordinary Shares (being 10% of the issued Ordinary Share capital as at the date of this report), will be put to shareholders at the 2020 AGM. Any purchase will be made in the market and prices will be in accordance with the terms laid out in the Notice of AGM (enclosed separately and available on the Company's website). The authority will be used where the Directors consider it to be in the best interests of shareholders.

Change of Control

Under the Group's financing facilities, any change of control at the borrower or parent company level may trigger a repayment of the outstanding amounts to the lending banks. The Directors do not receive compensation for loss of office occurring due to a change of control.

Income entitlement

The profits of the Company available for distribution and determined to be distributed shall be distributed by way of interim or final dividends among the holders of Ordinary Shares.

Capital entitlement

After meeting the liabilities of the Company on a winding-up, the surplus capital and assets shall be paid to the holders of Ordinary Shares and distributed among such holders pro rata according to the nominal capital paid up on their holdings of Ordinary Shares.

Voting entitlement

Each shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held. The Notice of AGM and Form of Proxy stipulate the deadlines for the valid exercise of voting rights and, other than with regard to Directors not being permitted to vote their Ordinary Shares on matters in which they have an interest.

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.

Substantial Shareholdings

As at 30 June 2020 the Company had been notified under Disclosure Guidance and Transparency Rule ('DTR') 5 of the following significant holdings of voting rights in its Ordinary Shares. These holdings may have changed since notification, however notification of any change is not required until the next applicable threshold is crossed.

Shareholder	Number of Ordinary Shares held	% of Total Voting Rights
Hawksmoor Investment Management Limited	9,873,508	12.27
Quilter PLC	9,545,131	11.85
Heartwood Wealth Management Limited	7,685,279	9.54
Brewin Dolphin Limited	4,023,334	4.99
Premier Miton Group PLC	4,000,000	4.97
Charles Stanley Group PLC	2,847,825	3.53

The Company has been notified of the following changes to the above interests as at the date of this Report:

Shareholder	Number of Ordinary Shares held	% of Total Voting Rights
Hawksmoor Investment Management Limited	10,559,396	13.11%
Quilter PLC	8,102,907	10.06%

Related Party Transactions

Related party transactions during the period to 30 June 2020 can be found in Note 21 to the Consolidated Financial Statements.

Research and Development

No expenditure on research and development was made during the year (2019: Nil).

DIRECTORS' REPORT CONTINUED

Donations and Contributions

No political or charitable donations were made during the year (2019: Nil).

Branches Outside the UK

There are no branches of the business located outside the United Kingdom.

Annual General Meeting

The Annual General Meeting of the Company will be held on 26 November 2020 at 10am at the Company's registered office.

Contracts of Significance

There are no contracts of significance of the Company or a subsidiary in which a Director is or was materially interested or to which a controlling shareholder was a party.

Statement of Disclosure of Information to Auditor

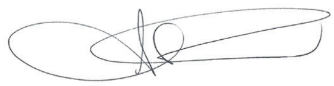
So far as each Director is aware, there is no relevant information, which would be needed by the Group's Auditor in connection with preparing their audit report (which appears on pages 52 to 58), of which the Auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that he ought to have taken as a Director to make himself aware of any such information and to ensure that the Auditor is aware of such information.

Information included in the Strategic Report

The information that fulfils the reporting requirements relating to the following matters can be found on the pages identified.

Subject matter	Page reference
Likely future developments	4 to 7

The Directors' Report has been approved by the Board of Directors and signed on its behalf by:



Steve Smith
Chairman

19 October 2020

VIABILITY STATEMENT

In accordance with provision 30 of the UK Code, the Directors have assessed the prospects of the Group over a period longer than the 12 months required by the 'Going Concern' provisions. The Board has considered the nature of the Group's assets and liabilities and associated cash flows and has determined that three years, up to 30 June 2023, is a realistic timescale over which the performance of the Group can be forecast with a degree of accuracy and so is an appropriate period over which to consider the Group's viability.

Considerations in support of the Company's viability over this three year period include:

1. The current unexpired term under the Group's debt facilities stands at 5.3 years.
2. The Group's property portfolio had a WAULT to break of 19.5 years and a WAULT to expiry of 21.6 years as at 30 June 2020, representing a secure income stream for the period under consideration.
3. A major proportion of the leases contain an annual, three or five year rent review patterns and therefore three years allow for the forecasts to include the reversion arising from most rent reviews.

The three year review considers the Company's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. In assessing the Company's viability, the Board has carried out a thorough review of the Company's business model, including future performance, liquidity and banking covenant tests for a three year period. In particular relating to the impact of the COVID-19 pandemic, the Directors have assessed the extent of any operational disruption; potential curtailment of rental receipts; potential liquidity and working capital shortfalls; and diminished demand for Company's assets going forwards, in adopting a going concern preparation basis and in assessing the Company's longer-term viability.

These assessments are subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections:

- The anticipated level of rents deferred or written off due to the impact of the COVID-19 pandemic;
- Tenant default;
- Dividend payments; and
- Property portfolio valuation movements.

Based on the prudent assumptions within the Company's forecasts regarding rent deferrals, tenant default, void rates and property valuation movements, the Directors expect that over the three year period of their assessment:

- LTV covenants will not be breached – as at 30 September 2020, the asset valuations and rental income of the 16 properties[9] secured to Canada Life would have needed to fall by 32% and 33% respectively before breaching the Loan to Value and Income Cover covenants respectively;
- REIT tests are complied with; and
- That the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

9 following the sale of the Wet 'n' Wild Water Park.

INFORMATION DISCLOSURES UNDER THE AIFM DIRECTIVE

Information Disclosures under the AIFM Directive

Langham Hall Fund Management LLP (the 'AIFM') is authorised and regulated by the FCA as a fullscope AIFM and provides its services to the Company.

The Company has appointed Langham Hall UK Depositary LLP (the 'Depositary') to act as the depositary to the Company, responsible for cash monitoring, asset verification and oversight of the Company.

Under the AIFMD, the Company is required to make disclosures in relation to its leverage under the prescribed methodology of the Directive.

In prior years, the leverage exposures shown below have been completed using Group (including all subsidiary) figures, however, in line with the AIFMD, only the leverage exposures of the Company itself (i.e. excluding subsidiaries figures unless there are guarantees in place) should be included. Below are the restated leverage exposure figures for 30 June 2019 along with the 30 June 2020 figures.

Leverage

The AIFMD prescribes two methods for evaluating leverage, namely the 'Gross Method' and the 'Commitment Method'. The Company's maximum and actual leverage levels are as per below:

	30 June 2020		30 June 2019	
Leverage Exposure	Gross Method	Commitment Method	Gross Method	Commitment Method
Maximum Limit	167.0%	167.0%	167.0%	167.0%
Actual	99.8%	100.0%	98.0%	100.0%

In accordance with the AIFMD, leverage is expressed as a percentage of the Company's exposure to its NAV and adjusted in line with the prescribed 'Gross' and 'Commitment' methods. The Gross method is representative of the sum of the Company's positions after deducting cash balances and without taking into account any hedging and netting arrangements. The Commitment method is representative of the sum of the Company's position without deducting cash balances and taking into account any hedging and netting arrangements. For the purposes of evaluating the methods above, the Company's positions primarily reflect its NAV.

Remuneration

The AIFM has adopted a remuneration policy which accords with the principles established by AIFMD.

AIFMD Remuneration Code Staff includes the members of the AIFM's Management Committee, those performing Control Functions, Department Heads, Risk Takers and other members of staff that exert material influence on the AIFM's risk profile or the Alternative Investment Funds it manages.

Staff are remunerated in accordance with the key principles of the firm's remuneration policy, which include (1) promoting sound risk management; (2) supporting sustainable business plans; (3) remuneration being linked to non-financial criteria for Control Function staff; (4) incentivise staff performance over longer periods of time; (5) awarding guaranteed variable remuneration only in exceptional circumstances; and (6) having an appropriate balance between fixed and variable remuneration.

As required under section 'Fund 3.3.5.R(5)' of the Investment Fund Sourcebook, the following information is provided in respect of remuneration paid by the AIFM to its staff. The information provided below is provided for the year from 1 July 2019 to 30 June 2020, which is in line with the most recent financial reporting of the AIFM, and relates to the total remuneration of the entire staff of the AIFM.

Total remuneration paid to employees during financial year:	**Year ended 30 June 2020**	
	Headcount	**Remuneration (£)**
Fixed remuneration	6	223,338
Variable remuneration	6	64,000

Langham Hall Fund Management LLP

19 October 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

Statement of Directors' Responsibilities in respect of the Annual Report and the Consolidated Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company, or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and the Consolidated Financial Statements

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- we consider the Annual Report and the Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Steve Smith
Chairman
19 October 2020

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report

to the members of Alternative Income REIT plc

1. Our opinion is unmodified

We have audited the financial statements of Alternative Income REIT plc ("the Company") for the year ended 30 June 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows, the Company's Statement of Financial Position, the Company's Statement of Changes in Equity, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors on 22 November 2017. The period of total uninterrupted engagement is for the 3 financial years ended 30 June 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that Standard were provided.

Overview		
Materiality: Group financial statements as a whole	£1.1m (2019:£1.2m) 1% (2019: 1% of total assets]	
Lower materiality applied to certain items	£220,000 (2019: £217,000) Applied to rental income, management fees and finance expenses	
Key audit matters	**vs 2019**	
Group	Valuation of investment properties (including Held for Sale assets)	▲
	Going Concern	▲
	The impact of uncertainties due to the UK exiting the European Union on our audit	◄►
Parent Company	Recoverability of investment in subsidiary undertakings	◄►

INDEPENDENT AUDITOR'S REPORT CONTINUED

2. Emphasis of matter – uncertain valuation of investment property

We draw attention to note 10 to the financial statements which states that the valuations of 15 of the investment properties at the reporting date (amounting to a value of £83 million) are subject to 'material valuation uncertainty' due to the potential economic effect of the coronavirus pandemic. Consequently, more subjectivity is associated with the valuation of investment property than would normally be the case. Our opinion is not modified in respect of this matter

We identified the valuation of investment properties as a key audit matter (see section 3 of this report)

3. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, (unchanged from the prior year), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Group level - Valuation of investment properties (including Held for Sale assets held at fair value) (£100 million; 2019: £112m) *Refer to page 33 (Audit Committee Report), page 66 (accounting policy) and page 71 (financial disclosures).*	**Subjective valuation** Investment property represents 91% (2019: 94%) of the gross assets of the Group. The portfolio comprises 19 (2019: 19) properties which are valued by a qualified external valuer. Each property's fair value will be impacted by a number of factors, but in particular the future rental income and market yields applied thereto, which in turn are impacted by the location, quality and condition of the building and the tenant covenant. Whilst comparable market transactions provide good valuation evidence, the individual nature of each property means that valuations involve significant levels of judgement. The impact of the coronavirus pandemic in 2020 has meant that, excluding the 4 industrial properties, the external valuations are subject to "material valuation uncertainty" as per VPGA 10 of the RICS Valuation – Global Standards and as such less certainty, and a higher degree of caution, should be placed on the valuation. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. **Disclosure quality** The financial statements (note 10) disclose the sensitivity of the valuations to changes in the key input as estimated by the Directors. The Directors' assessment of the extent of the disclosure is based on an evaluation of the inherent risks to the valuation, including the possible economic effect of the coronavirus pandemic. The risk for our audit is whether or not those disclosures adequately address the uncertainties within the valuation, and if so, whether those uncertainties are fundamental to the users' understanding of the financial statements.	Our procedures, assisted by our own property valuation specialist (For procedures 1, 2 and 3), included: **1. Assessing valuer's credentials**: assessing the external valuer's objectivity, professional qualifications and capabilities through discussions with the valuer and reading their valuation report and terms of engagement. **2. Assessing methodology choice:** critically assessing whether the valuation report and the valuation methodology adopted is in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS 13 Fair Value Measurements. **3. Challenging key valuation inputs:** For a sample of properties - selected using various criteria including the value of the property and its correlation with movements in market values - we challenged the key assumptions upon which these valuations were based, in particular including those relating to market rents and market yields. We informed our challenge using our understanding of the real estate market and industry benchmarks. We considered the evidence then provided to us. **4. Considering adequacy of disclosure:** assessing whether the Group's disclosures about the key assumptions - and sensitivity thereto - adequately reflects the related risks, particularly as regards the material uncertainty reported by the external valuer. **Our results** We concluded that the valuation of investment properties and the disclosures of the associated level of uncertainty are acceptable (2019: acceptable). We have included an emphasis of matter in respect of the material uncertainty in the valuation in section 2 of this report (2019: no material uncertainty).

INDEPENDENT AUDITOR'S REPORT CONTINUED

3. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Group level - Going Concern *Refer to page 49 (Viability statement) and page 64 (financial disclosures).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt a going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. Given the significant impact of the COVD-19 pandemic, the risks most likely to adversely affect the Group's and Company's available financial resources over this period were: - Tenant default and significant reduction in rent collections impacting cash flow and earnings; - Significant reduction in property values; and - Consequential compliance with loan covenants; and This risk for our audit was whether or not those risks were such that they amounted to material uncertainty that cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to be disclosed.	Our procedures included: **1. Funding assessment:** Analysing the Group's financing terms and reviewing Directors' forecasts and assumptions for ongoing covenant compliance and available headroom; **2. COVID-19 knowledge:** Considering the Director's assessment of COVID-19 related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. This included assessing the possibility of tenant default and the impact on rent collections for cash flow purposes, the impact of a significant reduction in property values and the ability of the Group to comply with the loan covenants; **3. Sensitivity analysis:** Considering sensitivities over the level of available financial resources and the potential impact on the Group's loan covenants, indicated by the Group's financial forecast taking account of severe but plausible adverse effects that could arise from these risks individually and collectively such as a further reduction in rent collections, a fall in real estate values and a gradual recovery in relation to these factors following a second lockdown as a result of the COVID-19 pandemic. **4. Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosures and whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern. **Our results** We found the going concern disclosure, without any material uncertainty, to be acceptable (2019: acceptable).
Group level - The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 25 (Principal Risks and Uncertainties).*	**Unprecedent levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of investment properties and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see above). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.	We have developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: **1. Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks; **2. Sensitivity analysis**: When addressing valuation of investment property, disclosures in relation to going concern and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios that could arise individually and collectively such as a further reduction in rent collections and a fall in real estate valuation as described in the Going Concern KAM; and

INDEPENDENT AUDITOR'S REPORT CONTINUED

3. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Group level - The impact of uncertainties due to the UK exiting the European Union on our audit (continued) *Refer to page 25 (Principal Risks and Uncertainties)*	In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	**3. Assessing transparency:** As well as assessing individual disclosures as part of our procedures on valuation of investment property and disclosures in relation to going concern we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the Valuation of Investment Properties KAM and Going Concern KAM, we found the resulting estimates and related disclosures of valuation of investment property and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Parent Company level – Recoverability of investment in subsidiary undertakings *Refer to page 84 (financial disclosures).*	**Recoverability of investment in subsidiary undertakings** The carrying amount of the parent Company's investment in its subsidiary represents 89% (2019: 87%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the parent Company financial statements, this is considered to be the area that will have the greatest effect on our overall Parent Company audit.	Our procedures included: **1. Test of Detail:** Compare the carrying amount of the investment with the subsidiary's balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, is in excess to its carrying amount. **Our results** We found the carrying amount of the investment in the subsidiary to be acceptable (2019: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

4. Our application of materiality and an overview of the scope of our audit

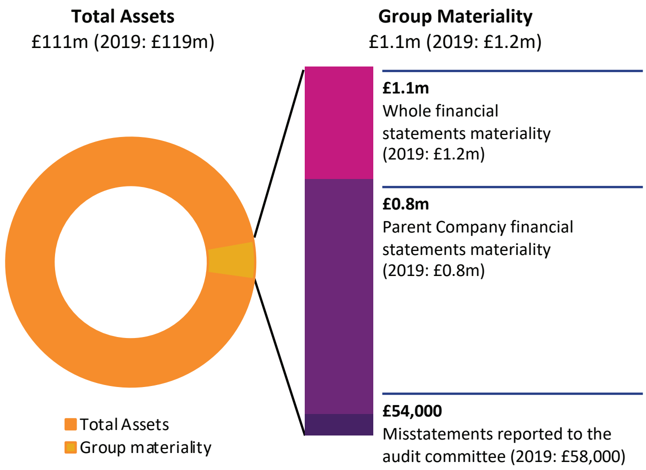
Materiality for the financial statements as a whole was set at £1.1 million (2019: £1.2 million), determined with reference to a benchmark of total assets, of which it represents 1% (2019: 1%).

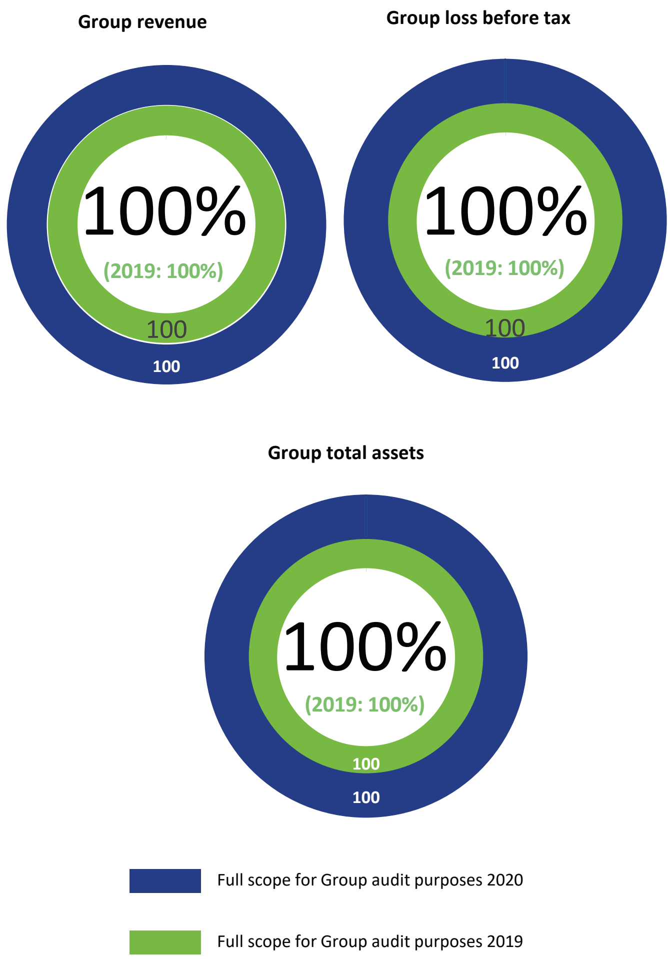
In addition, we applied a lower materiality of £222,000 (2019: £220,000) to rental income, management fees and finance expense, for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole can be reasonably expected to influence the Group's members' assessment of the financial performance of the Group.

Materiality for the parent Company financial statements as a whole was set at £0.8 million (2019: £0.8 million), determined with reference to a benchmark of Company total assets, of which it represents 1% (2019: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £54,000 (2019: £58,000) or £11,000 (2019: £10,000) for misstatements of accounts audited to the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group, including the parent Company audit, was undertaken to the materiality levels specified above as if it was a single aggregated set of financial information and was performed by a single audit team.





5. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company and the Group will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 47 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT CONTINUED

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the Directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the viability statement page 49 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and

— the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT CONTINUED

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 51, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Landlord and Tenant act, anti-bribery, employment law, REIT legislation, regulatory capital and liquidity and certain aspects of company legislation recognising the financial nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify any actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Williams (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

19 October 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Income			
Rental and other income	3	7,810	6,907
Property operating expense	4	(515)	(162)
Net rental and other income		7,295	6,745
Other operating expenses	4	(1,492)	(1,164)
Operating profit before fair value changes		5,803	5,581
Change in fair value of investment properties*	10	(9,411)	(174)
Operating (loss)/profit		(3,608)	5,407
Finance expense	6	(1,442)	(1,174)
(Loss)/profit before tax		**(5,050)**	**4,233**
Taxation	7	–	–
(Loss)/profit after tax		(5,050)	4,233
Other comprehensive income		–	–
Total comprehensive (loss)/profit for the year		(5,050)	4,233
(Loss)/earnings per share (pence per share) (basic and diluted)	8	**(6.27)**	**5.26**

The notes on pages 63 to 80 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 £000	30 June 2019 £000
Assets			
Non-current Assets			
Investment property	10	100,273	112,562
		100,273	112,562
Current Assets			
Receivables and prepayments	11	5,417	1,154
Cash and cash equivalents		2,288	5,519
		7,705	6,673
Non-current assets held for sale	16	2,734	-
Total Assets		**110,712**	**119,235**
Non-current Liabilities			
Interest bearing loans and borrowings	13	40,417	40,314
Lease obligations	14	373	482
		40,790	**40,796**
Current Liabilities			
Payables and accrued expenses	12	2,595	2,083
Lease obligations	14	41	35
		2,636	2,118
Total Liabilities		**43,426**	**42,914**
Net Assets		**67,286**	**76,321**
Equity			
Share capital	18	805	805
Capital reserve and retained earnings		66,481	75,516
Total capital and reserves attributable to equity holders of the Group		**67,286**	**76,321**
Net Asset Value per share (pence per share)	8	**83.58**	**94.81**

The notes on pages 63 to 80 form an integral part of these Consolidated Financial Statements.

The financial statements on pages 59 to 87 were approved by the Board of Directors on 19 October 2020 and were signed on its behalf by:

STEVE SMITH, CHAIRMAN

Company number: 10727886

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Notes	Share capital £000	Share premium account £000	Capital reserve and retained earnings £000	Total capital and reserves attributable to equity holders of the Group £000
For the year ended 30 June 2020					
Balance as at 1 July 2019		**805**	**–**	**75,516**	**76,321**
Total comprehensive loss		–	–	(5,050)	(5,050)
Dividends paid	9	–	–	(3,985)	(3,985)
Balance as at 30 June 2020		**805**	**–**	**66,481**	**67,286**
For the year ended 30 June 2019					
Balance as at 1 July 2018		**805**	**–**	**75,617**	**76,422**
Total comprehensive income		–	–	4,233	4,233
Share issue costs		–	–	(7)	(7)
Dividends paid	9	–	–	(4,327)	(4,327)
Balance as at 30 June 2019		**805**	**–**	**75,516**	**76,321**

The notes on pages 63 to 80 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Year ended 30 June 2020 £000	Year ended 30 June 2019 £000
Cash flows from operating activities		
(Loss)/profit after tax	(5,050)	4,233
Adjustment for non-cash items		
Finance expenses	1,442	1,174
Loss from change in fair value of investment property	9,411	174
(Increase)/decrease in other receivables and prepayments	(4,262)	280
Increase/(decrease) in other payables and accrued expenses	694	(482)
Net cash flow generated from operating activities	**2,235**	**5,379**
Cash flows from investing activities		
Purchase of investment properties	–	(13,276)
Net cash used in investing activities	**–**	**(13,276)**
Cash flows from financing activities		
Share issue costs	–	(7)
Loan draw down	–	11,000
Release of restricted cash	–	1,362
Loan arrangement fees	–	(210)
Finance costs paid	(1,435)	(1,012)
Dividends paid	(4,031)	(4,311)
Net cash (used in)/generated from financing activities	**(5,466)**	**6,822**
Net decrease in cash and cash equivalents	(3,231)	(1,075)
Cash and cash equivalents at start of period	5,519	6,594
Cash and cash equivalents at end of period	**2,288**	**5,519**

The notes on pages 63 to 80 form an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. CORPORATE INFORMATION

The Company is a public limited company and a closed ended Real Estate Investment Trust ('REIT') incorporated on 18 April 2017 and domiciled in the UK and is registered in England and Wales. The registered office of the Company is located at 1 King William Street, London, United Kingdom, EC4N 7AF.

The Company changed its name from AEW UK Long Lease REIT Plc to Alternative Income REIT Plc during the year.

The Company's Ordinary Shares were listed on the Official List of the FCA and admitted to trading on the Main Market of the London Stock Exchange on 6 June 2017.

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 25.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

These Consolidated Financial Statements are prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU IFRS').

These Consolidated Financial Statements have been prepared under the historical-cost convention, except for investment property that has been measured at fair value.

The Consolidated Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000), except when otherwise indicated.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of Alternative Income REIT Plc and its subsidiaries (the 'Group'). Subsidiaries are entities controlled by the Company, being Alternative Income Limited (previously known as AEW UK Long Lease REIT 2017 Limited) and Alternative Income REIT Holdco Limited (previously known as AEW UK Long Lease REIT Holdco Limited).

New standards, amendments and interpretations

The following new standards and amendments to existing standards have been published and approved by the EU. The Group has applied the following standards from 1 July 2019, with the year ended 30 June 2020 being the first year end reported under the standards:

IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leasing arrangements. The new standard results in almost all leases held as lessee being recognised on the balance sheet, as the distinction between operating and finance leases is removed. However, IFRS 16 has not impacted operating leases held by the Group where the Group is lessor.

Upon adoption of IFRS 16, the accounting treatment of leases previously classified as finance leases (including ground leases classified as investment property) remained unchanged and there have been no measurement changes to the finance lease liability or the leased asset. A reconciliation of the presentation under IFRS 16 versus IAS 17 has not been presented, as there was an immaterial impact on the net assets. There were no new lease liabilities arising during the year.

Accordingly, comparative amounts have not been restated.

The following have also been considered, but have had no impact on the Group for the reporting period:

- IFRIC 23, Uncertainty over Income Tax Treatments
- Amendments to IAS 28 Long Term Interests in Associates and Joint Ventures; and
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.

The following new standards and amendments to existing standards have been published and approved by the EU, and are mandatory for the Group's accounting periods beginning after 1 April 2020 or later periods:

- Definition of Material - amendments to IAS 1 and IAS 8;
- Annual improvements to IFRS 2015-2017 Cycle: amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- IFRS 17 - Insurance Contracts; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

- Revised Conceptual Framework for financial reporting. The IASB has issued a revised Conceptual Framework for future standard setting decisions. No changes will be made to any of the current standards.

The Group does not expect the adoption of new accounting standards issued but not yet effective to have a significant impact on its financial statements.

2.2 Significant accounting judgements and estimates

The preparation of financial statements in accordance with EU IFRS requires the Directors of the Company to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future.

There are not considered to be any judgements which have a significant effect on the amounts recognised in the consolidated financial information.

Estimates

In the process of applying the Group's accounting policies, management has made the following estimates, which have a significant effect on the amounts recognised in the consolidated financial information:

Valuation of investment property

The fair value of investment property is determined, by external property valuation experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques, applying the principles of both IAS 40 and IFRS13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Global Standard January 2020. Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 10.

2.3 Segmental information

Each property held by the group is reported to the chief operating decision maker individually. In the case of the group, the chief operating decision maker is considered to be the three Directors. The review process for segmental information includes the monitoring of key performance indicators applicable across all properties. These key performance indicators include Gross Passing Rental Income, WAULT to break in years and valuation of properties. All asset cost and rental allocations are reported by property too. The internal financial reports received by the Directors cover the group and all its properties and do not differ from amounts reported in the financial statements. The Directors have considered that each property has similar economic characteristics and have therefore aggregated the portfolio into one reportable segment under the provisions of IFRS 8.

2.4 Going concern

In assessing the Group's going concern assumptions, the Directors have particularly considered the impact of the COVID-19 pandemic on the performance of the business.

The Directors have therefore projected the Group's cash flows for the period up to 31 December 2021, challenging and sensitising inputs and assumptions to ensure that the cash forecast reflects a realistic outcome given the uncertainties associated with the current economic environment.

The Directors note that the Group's main financing of £41m does not mature until 2025 and the Group has reported full compliance with its loan covenants to date. Based on the current cash flow projections, the directors expect to continue to remain compliant with the covenants.

The Directors also note that the headroom of the loan to value covenant is significant and any fall in property values that caused a breach would be significantly more than any currently envisaged.

A 'severe, but plausible, downside' scenario has also been projected. While rent collections have been strong, this scenario anticipates further rent deferrals and write-offs where tenants would have difficulty paying rents.

- The Directors have assumed a rent collection of 80% from Q3 2020 to Q4 2020, decreasing to 70% in Q1 2021 and 60% in Q2 2021, and recovering to 70% in Q3 2021 and then to 80% in Q4 2021.
- In such a scenario, the assumption is that 50% of these rent deferrals would be written off, with the remainder repaid over the course of 5 years from Q4 2021. This is in addition to any existing agreements already made with tenants.

In this scenario the Group still has adequate headroom against the interest cover covenant and positive cash balances.

Having assessed the heightened risks as well as mitigating factors and management strategies available to reduce such risks, the Directors have determined that the Group has adequate resources to continue in operational existence for the foreseeable future.

Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

a) Presentation currency

These Consolidated Financial Statements are presented in Sterling, which is the functional and presentational currency of the Company and its subsidiary undertakings. The functional currency of the Company and its subsidiaries is principally determined by the primary economic environment in which it operates. The Group did not enter into any transactions in foreign currencies during the period.

b) Revenue recognition

i) Rental income

Rental income under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income, which is recognised when it arises. For leases, which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the 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.

Lease modifications, such as lease extensions and rent reductions, are accounted for in one of two ways:

- It is treated as a separate lease
- It is not treated as a separate lease

A modification will only be treated as a separate lease if it involves the addition of one or more underlying assets at a price that is commensurate with the standalone price of the increase in scope. All other modifications are not treated as a separate lease.

If a modification is a separate lease, a lessee applies the requirements of IFRS 16 to the newly added asset, due as a result of the modification, independently of the original lease. The accounting for the original lease continues unchanged.

If a modification is not a separate lease, the accounting reflects that there is a linkage between the original lease and the modified lease. The existing lease liability is remeasured with a corresponding adjustment to the right-of-use asset on the effective date of the modification.

ii) Service charges and direct recharges

Revenue from service charges is recognised in the accounting period in which the service is rendered. For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

iii) Deferred income

Deferred income is rental income received in respect of future accounting periods.

c) Financing income and expenses

Financing income comprises interest receivable on funds invested. Financing expenses comprise interest and other costs incurred in connection with the borrowing of funds. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

d) Investment property

Property is classified as investment property when it is held to earn rentals or for capital appreciation or both. Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes and professional fees to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the replacement of that part will prolong or improve the life of the asset.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss.

Investment properties are valued by the external valuer. Any valuation of an Immovable by the external valuer must be undertaken in accordance with the current issue of RICS Valuation – Professional Standards (the 'Red Book').

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and yield applicable to those cash flows.

For the purposes of these Consolidated Financial Statements, the assessed fair value is:

- reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives; and
- increased by the carrying amount of leasehold obligations.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected after its disposal or withdrawal.

The profit on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period. Any gains or losses on the retirement or disposal of investment property are recognised in profit or loss in the year of retirement or disposal.

e) Cash and cash equivalents

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less.

f) Receivables and prepayments

Rent and other receivables are initially recognised at fair value and subsequently at amortised cost. Impairment provisions are recognised based upon an expected credit loss model. The Group has made an assessment of expected credit losses at each period end, using the simplified approach where a lifetime expected loss allowance is always recognised over the expected life of the financial instrument. Any adjustment is recognised in profit or loss as an impairment gain or loss.

g) Other payables and accrued expenses

Other payables and accrued expenses are initially recognised at fair value and subsequently held at amortised cost.

h) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are amortised over the lifetime of the facilities through profit or loss.

i) Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

j) Dividend payable to shareholders

Equity dividends are recognised when they become legally payable.

k) Share issue costs

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

l) Lease obligations

Lease obligations relate to the head rent of investment property and are capitalised at the lease commencement, at the lower of fair value of the property and present value of the minimum lease payments and held as a liability within the Consolidated Statement of Financial Position. The lease payments are discounted using the interest rate implicit in the lease. Where the group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

m) Taxes

Corporation tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Group is exempt from corporation tax on the profits and gains from its investments, provided it continues to meet certain conditions as per REIT regulations.

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates applicable in the period.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the period end date.

n) Leases - group as lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (2.5b). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The Group recognises lease income for variable payment that depends on an index or a rate on a straight line basis.

o) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Investment properties classified as such are still measured at fair value.

p) European Public Real Estate Association

The Group has adopted European Public Real Estate Association ('EPRA') best practice recommendations, which it expects to broaden the range of potential institutional investors able to invest in the Company's Ordinary Shares. For the year ended 30 June 2020, audited EPS and NAV calculations under EPRA's methodology are included in note 8 and further unaudited measures are included on page 87.

q) Capital and reserves

Share capital

Share capital is the nominal amount of the Company's ordinary shares in issue.

Share premium

Share premium relates to amounts subscribed for share capital in excess of nominal value less associated issue costs of the subscriptions.

Capital reserve

The capital reserve is a distributable reserve and represents the cancelled share premium less dividends paid from this reserve.

Retained earnings

Retained earnings represent the profits of the Group less dividends paid from revenue profits to date. Unrealised losses on the revaluation of investment properties in the amount of £6,590,492 loss (2019: £608,406 gain) contained within this reserve are not distributable until they crystallise on the sale of the investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

3. RENTAL AND OTHER INCOME

Corporate information

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Gross rental income	6,073	6,321
Service charges and direct recharges* (see note 4)	459	–
Spreading of tenant incentives - rent indexation	720	531
Spreading of tenant incentives - rent free periods	558	54
Other property income	–	1
Total rental and other income	**7,810**	**6,907**

All rental, service charge and direct recharge and other income is derived from the United Kingdom.

* The directors have reviewed the underlying agreements and determined that the Company is a principal under IFRS 15. As a result the relevant income and expenses generated/incurred relating to service charges and direct recharges have been recognised and presented as gross in the financial statements. Please refer to note 4 for the relevant expense incurred during the year. In 2019, service charges and direct recharges were presented net, however these figures have not been restated as they were not material

4. EXPENSES

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Property operating expenses	56	162
Service charges and direct recharges (see note 3)	459	–
	515	**162**
Other operating expenses		
Investment management fee	408	544
Auditor remuneration	120	110
Provision for impairment of trade receivables	213	–
Operating costs	550	431
Directors' remuneration (note 5)	94	79
Write off of unreconciled difference - see page 32	107	–
Total other operating expenses	**1,492**	**1,164**
Total operating expenses	**2,007**	**1,326**
Audit		
Statutory audit of Annual Report and Accounts	105	72
Statutory audit of Subsidiary Accounts	15	12
Total fees paid to KPMG LLP	**120**	**84**

KPMG LLP have not provided any non-audit services to the Group

5. DIRECTORS' REMUNERATION

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Directors' fees	90	75
Tax and social security	4	4
Total fees	**94**	**79**

A summary of the Director's remuneration is set out in the Directors' Remuneration Report on pages 40 to 42.

The Group had no employees during the period.

6. FINANCE EXPENSES

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Interest payable on loan	1,315	1,083
Amortisation of loan arrangement fee (note 13)	124	90
Other finance costs	3	1
Total	**1,442**	**1,174**

7. TAXATION

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Tax charge comprises:		
Analysis of tax charge in the period		
(Loss)/profit before tax	(5,050)	4,233
Theoretical (tax credit)/tax at UK corporation tax standard rate of 19.00% (2019: 19.00%)	(960)	804
Adjusted for tax exempt items under the REIT regime:		
Reduction in value of investment properties	1,788	33
Other net income	(828)	(837)
Total	**–**	**–**

The Group obtained REIT status on 13 October 2017, at which point the Corporation Tax on any gains or losses arising from property business have been extinguished. As such, no deferred tax asset or liability has been recognised in the current period.

Factors that may affect future tax charges

Due to the Group's status as a REIT and the intention to continue meeting the conditions required to retain approval as a REIT in the foreseeable future, the Group has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

8. (LOSS)/EARNINGS PER SHARE AND NAV PER SHARE

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
(Loss)/earnings per share:		
Total comprehensive (loss)/profit (£'000)	(5,050)	4,233
Weighted average number of shares (Number)	80,500,000	80,500,000
(Loss)/earnings per share (basic and diluted) (pence)	**(6.27)**	**5.26**
EPRA EPS:		
Total comprehensive (loss)/profit (£'000)	(5,050)	4,233
Adjustment to total comprehensive (loss)/profit:		
Change in fair value of investment properties (£'000)	9,411	174
EPRA earnings (basic and diluted) (£'000)	**4,361**	**4,407**
EPRA EPS (basic and diluted) (pence)	**5.42**	**5.47**
Adjusted EPS:		
EPRA earnings (basic and diluted) (£'000)	4,361	4,407
Adjustments:		
Rental income recognised in respect of guaranteed fixed rental uplifts (£'000)	(720)	(531)
Rental income recognised in respect of rent free periods (£'000)	(558)	(54)
Amortisation of loan arrangement fee (£'000)	124	90
Provision for impairment of trade receivables (£'000)	213	–
Adjusted earnings (basic and diluted) (£'000)	3,420	3,912
Adjusted EPS (basic and diluted) (pence)*	**4.25**	**4.86**
NAV per share:		
Net assets (£'000)	67,286	76,321
Ordinary Shares (Number)	80,500,000	80,500,000
NAV per share (pence)	**83.58**	**94.81**

* Adjusted EPS is a measure used by the Board to assess the level of the Group's dividend payments. This metric adjusts EPRA earnings for non-cash items in arriving at an adjusted EPS as supported by cash flows.

Earnings per share are calculated by dividing (loss)/profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. EPRA NAV and EPRA NNNAV (refer to Glossary) are equal to the NAV presented in the Consolidated Statement of Financial Position under IFRS and there are no adjusting items. Accordingly, a reconciliation between these measures has not been presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

9. DIVIDENDS PAID

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Fourth interim dividend declared and paid in respect of the quarter ended 30 June 2019 at 1.375p per Ordinary Share (2019: quarter ended 30 June 2018 at 1.25p per Ordinary Share*)	1,107	1,006
First interim dividend declared and paid in respect of the quarter ended 30 September 2019 at 1.375p per Ordinary Share (2019: quarter ended 30 September 2018 at 1.375p per Ordinary Share)	1,107	1,107
Second interim dividend declared and paid in respect of the quarter ended 31 December 2019 at 1.375p per Ordinary Share (2019: quarter ended 31 December 2018 at 1.375p per Ordinary Share)	1,107	1,107
Third interim dividend declared and paid in respect of the quarter ended 31 March 2020 at 0.825p per Ordinary Share (2019: quarter ended 31 March 2019 at 1.375p per Ordinary Share)	664	1,107
Total dividends declared and paid during the year**	**3,985**	**4,327**
Fourth interim dividend declared in respect of the quarter ended 30 June 2019 at 1.375p per Ordinary Shares (2019: quarter ended 30 June 2018 at 1.25p per Ordinary Share*)	(1,107)	(1,006)
Fourth interim dividend declared in respect of the quarter ended 30 June 2020 at 1.425p per Ordinary Share*	1,147	1,107
Total dividends in respect of the year	**4,025**	**4,428**

* Dividends declared after the year end are not included in the Consolidated Financial Statements as a liability.
** Dividends paid per cash flow statement amount to £4,031 (£'000) due to additional dividend witholding tax paid.

10. INVESTMENTS

10.1 Investment property

	30 June 2020			30 June 2019
	Investment properties freehold £'000	Investment properties leasehold £'000	Total £'000	Total £'000
UK Investment property				
At the beginning of the year	94,280	18,710	112,990	99,090
Adjustment on cost*	(143)	–	(143)	13,489
Revaluation of investment property	(7,007)	(1,080)	(8,087)	411
Non-current asset held for sale (note 16)	–	(2,850)	(2,850)	–
Valuation provided by Knight Frank LLP	**87,130**	**14,780**	**101,910**	**112,990**

*The adjustment on cost relates to the reversal of a provision raised in the prior year as well as a correction to the cost of one of the properties.

Adjustment to fair value for rent smoothing	(2,224)	(945)
Reclassification to Non-current asset held for sale (note 16)	116	–
Adjustment for lease obligations	471	517
Total investment property	**100,273**	**112,562**
Change in fair value of Investment property		
Change in fair value before adjustments for lease incentives and lease obligations	(8,087)	411
Movement in lease obligations	(46)	–
Adjustment to fair value for rent smoothing of lease income	(1,278)	(585)
	(9,411)	**(174)**

Valuation of investment property

Valuation of investment property is performed by Knight Frank LLP, an accredited external valuer with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued.

The valuation of the Group's investment property at fair value is determined by the external valuer on the basis of market value in accordance with the internationally accepted RICS Valuation – Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and yield applicable to those flows.

A 'material valuation uncertainty' clause, per VPGA 10 of the RICS Valuation - Global Standards has been added to the valuation performed as at 30 June 2020. This is as a result of the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on 11th March 2020, which has impacted global financial markets. This valuation uncertainty applies to all properties within the group except for:

- Grazebrook Industrial Estate, Dudley

- Provincial Park, Sheffield

- Dolphin Park, Sittingbourne

- Pocket Nook Industrial Estate, St Helens

As a result of the Coronavirus pandemic and the impact this has had on tenant strength and their ability to pay their rental commitments, a number of commercial property sectors experienced decreased valuations. Retail and leisure sectors experienced the largest decreases, and it was these assets within the AIRE portfolio that suffered the largest valuation declines during the year. Gyms and hotels were shut for the majority of 2020, leading to no rent being collected from these tenants for the period March to June.

Consequently, less certainty - and a higher degree of caution - should be attached to the valuation than would normally be the case.

10.2 Fair value measurement heirarchy

The following table provides the fair value measurement hierarchy for non-current assets:

	30 June 2020			
	Quoted prices in active markets (Level 1) £'000	**Significant observable inputs (Level 2) £'000**	**Significant unobservable inputs (Level 3) £'000**	**Total £'000**
Assets measured at fair value				
Investment property*	–	–	101,910	101,910
	–	**–**	**101,910**	**101,910**

	30 June 2019			
	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Assets measured at fair value				
Investment property*	–	–	112,990	112,990
	–	**–**	**112,990**	**112,990**

* before adjustments to fair value for rent smoothing of lease income and lease obligations

Explanation of the fair value hierarchy:

Level 1 – Quoted prices for an identical instrument in active markets;

Level 2 – Prices of recent transactions for identical instruments and valuation techniques using observable market data; and

Level 3 – Valuation techniques using non-observable data.

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of investment properties are:

1) Estimated Rental Value ('ERV')

2) Equivalent yield

Increases/(decreases) in the ERV (per sq ft per annum) in isolation would result in a higher/(lower) fair value measurement. Increases/(decreases) in the yield in isolation would result in a lower/(higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement, categorised within Level 3 of the fair value hierarchy of the portfolio of investment property and investments are:

Class	Fair value £'000	Valuation technique	Significant unobservable inputs	Range
30 June 2020				
Investment Property*	101,910	Income capitalisation	ERV Equivalent yield	£3.74 - £21.96 5.34% - 8.76%
30 June 2019				
Investment Property*	112,990	Income capitalisation	ERV Equivalent yield	£3.74 - £21.96 4.81% - 8.66%

* Valuation per Knight Frank LLP

Where possible, sensitivity of the fair values of Level 3 assets are tested to changes in unobservable inputs to reasonable alternatives.

	30 June 2020			
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Sensitivity Analysis	+10%	-10%	+10%	-10%
Resulting fair value of investment property	113,193	97,883	106,808	102,724

	30 June 2019			
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Sensitivity Analysis	+5%	-5%	+5%	-5%
Resulting fair value of investment property	113,721	112,158	108,914	117,391

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

11. RECEIVABLES AND PREPAYMENTS

	30 June 2020 £'000	30 June 2019 £'000
Receivables		
Rent debtor	1,174	136
Less: Provision for impairment of trade receivables*	(213)	–
Other debtors	2,211	3
Total Receivables	**3,172**	**139**
Rent smoothing debtor - rent indexation	1,598	876
Rent smoothing debtor - rent free periods	626	69
Other prepayments	21	71
Total	**5,417**	**1,154**

The aged debtor analysis of receivables which are past due but not impaired is as follows:

	30 June 2020 £'000	30 June 2019 £'000
Less than three months due	3,089	139
Between three and six months due	83	–
Between six and twelve months due	–	–
	3,172	**139**

* The Directors' have assessed the credit worthiness of the tenants and the impact of COVID-19 on the tenant's ability to pay, particularly with regard to the education and leisure sectors. We have noted that, to date, no rent free periods or rent adjustments (except for the Travelodge CVA) have been agreed across the portfolio. The Group has granted limited concessions to a small number of tenants to settle their rent monthly and continues to provide proportionate assistance to those tenants whose operations are materially affected.

12. PAYABLES AND ACCRUED EXPENSES

	30 June 2020 £'000	30 June 2019 £'000
Deferred income	1,265	990
Trade creditors	87	–
Accruals	395	313
Other creditors	848	780
	2,595	**2,083**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

13. INTEREST BEARING LOANS AND BORROWINGS

	30 June 2020 £'000	30 June 2019 £'000
At the beginning of the year	41,000	30,000
Bank borrowings drawn in the year	–	11,000
Total facility drawn	**41,000**	**41,000**
Less loan issue costs incurred	(686)	(776)
Less: adjustment on loan issue cost	(21)	–
Plus: amortised loan issue costs	124	90
At end of period	**40,417**	**40,314**
Repayable between 1 and 2 years	–	–
Repayable between 2 and 5 years	–	–
Repayable in over 5 years	41,000	41,000
Total	**41,000**	**41,000**

As at 30 June 2020, the Group had utilised all of its £41 million fixed interest loan facility with Canada Life Investments and was geared at a loan to Gross Asset Value ('GAV') of 37.0% (2019: 34.4%). The weighted average interest cost of the Group's facility is 3.19% and the facility is repayable on 20 October 2025.

	30 June 2020 £'000	30 June 2019 £'000
Reconciliation to cash flows from financing activities		
At the beginning of the year	40,314	28,029
Loan drawn down	–	12,362
Interest paid	(1,435)	(1,012)
Total changes from financing cash flows	**(1,435)**	**11,350**
Other changes		
Movement in interest payable presented under other creditors	(7)	(162)
Interest expense	1,442	1,174
Adjustment on loan issue costs	(21)	(167)
Amortisation of loan issue costs	124	90
Total other changes	**1,538**	**935**
At the end of the year	**40,417**	**40,314**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

14. LEASE OBLIGATIONS

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid on that date.

The following table analyses the minimum lease payments under non-cancellable leases:

	30 June 2020 £'000	30 June 2019 £'000
Within one year	50	35
After one year but less than five years	200	150
More than five years	563	700
Total undiscounted lease liabilities:	**813**	**885**
Less: Future finance charge on lease obligations	(399)	(368)
Present value of lease liabilities:	**414**	**517**
Lease liabilities included in the statement of financial position:		
Current	41	35
Non-current	373	482
Total:	**414**	**517**

15. COMMITMENTS

Operating lease commitments - as lessor

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have a remaining term of between 6 months and 90 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2020 are as follows:

	30 June 2020 £'000	30 June 2019 £'000 (Restated - see below)
Less than one year	6,449	6,082
One to two years	6,603	6,774
Two to three years	6,626	6,827
Three to four years	6,729	6,773
Four to five years	6,758	6,874
Five to ten years	30,429	32,029
Ten to fifteen years	28,231	29,940
Over fifteen years	64,735	69,275
Total:	**156,560**	**164,574**

During the year ended 30 June 2020 (2019: £nil) there were no material contingent rents recognised as income.

In preparing the consolidated financial statements, the directors have considered it necessary to correct certain amounts of the comparative information for the disclosures in respect of future minimum lease income which was understated by £7.57m (split as a £2.04m understatement of ten to fifteen years and a £5.53m understatement of over fifteen years) and an amount of £6.84m was misclassified between 2 to 5 years and more than 5 years.

Capital commitment

Work started in September 2020 to replace the defective cladding elements uncovered on the external walls of the top floors and rear lift core of the Travelodge Hotel, Swindon, with compliant replacements and to remediate the fire stopping. Completion of the work is expected in December 2020 at a cost (including professional fees) of c.£1.2 million. The cladding was installed when the property was extended in 2007 and both the architect and cladding sub-contractor involved are being pursued for reimbursement of the costs incurred.

16. NON-CURRENT ASSETS HELD FOR SALE

The investment property known as Wet n Wild, Royal Quays, North Shields was presented as held for sale as at 30 June 2020 following a management decision to dispose of it in order to better align the group's property portfolio with its strategic objectives. Negotiations with the potential buyer were at an advanced stage as at 30 June 2020. The sale was completed on 31 July 2020 - Refer to note 22.

	30 June 2020 £'000	30 June 2019 £'000
Assets held for sale		
Investment property	2,734	–
Total	**2,734**	**–**

17. INVESTMENTS IN SUBSIDIARIES

The Company has two wholly owned subsidiaries as disclosed below:

Name and company number	**Country of registration and incorporation**	**Date of incorporation**	**Principal activity**	**Ordinary Shares held**
Alternative Income REIT Holdco Limited (Company number 11052186)	England and Wales	7 November 2017	Real Estate Company	73,158,502*
Alternative Income Limited (Company number 10754641)	England and Wales	4 May 2017	Real Estate Company	73,158,501*

* Ordinary shares of £1.00 each.

Alternative Income REIT Plc as at 30 June 2020 owns 100% controlling stake of Alternative Income REIT Holdco Limited.

Alternative Income REIT Holdco Limited holds 100% of Alternative Income Limited.

Both Alternative Income REIT Holdco Limited and Alternative Income Limited are registered at 1 King William Street, London, United Kingdom, EC4N 7AF.

18. ISSUED SHARE CAPITAL

	For the year ended 30 June 2020		**For the year ended 30 June 2019**	
	£'000	**Number of Ordinary Shares**	**£'000**	**Number of Ordinary Shares**
Ordinary Shares issued and fully paid				
At the beginning of the year	805	80,500,000	805	80,500,000
At the end of the year/period	**805**	**80,500,000**	**805**	**80,500,000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

19. FINANCIAL RISK MANAGEMENT AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and further risks inherent to investing in investment property. The Group's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

The principal risks facing the Group in the management of its portfolio are as follows:

19.1 Market price risk

Market price risk is the risk that future values of investments in property will fluctuate due to changes in market prices. To manage market price risk, the Group diversifies its portfolio geographically in the UK and across property sectors.

The disciplined approach to the purchase, sale and asset management ensures that the value is maintained to its maximum potential. Prior to any property acquisition or sale, detailed research is undertaken to assess expected future cash flow. The Investment Management Committee ('IMC') of the Investment Manager meets monthly and reserves the ultimate decision with regards to investment purchases or sales. In order to monitor property valuation fluctuations, the IMC and the Portfolio Management Team of the Investment Manager meet with the independent external valuer on a regular basis. The valuer provides a property portfolio valuation quarterly, so any movements in the value can be accounted for in a timely manner and reflected in the NAV every quarter.

19.2 Real estate risk

Property investments are illiquid assets and can be difficult to sell, especially if local market conditions are poor. Illiquidity may also result from the absence of an established market for investments, as well as legal or contractual restrictions on resale of such investments.

There can be no certainty regarding the future performance of any of the properties acquired for the Group. The value of any property can go down as well as up.

Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income generated and expenses incurred from such investments.

There are additional risks in vacant, part vacant, redevelopment and refurbishment situations, although these are not prospective investments for the Group.

These aspects, and their effect on the Group from a going concern perspective are discussed in more detail in the Going Concern policy note.

19.3 Credit risk

Credit risk is the risk that the counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Group by failing to meet a commitment it has entered into with the Group.

It is the Group's policy to enter into financial instruments with reputable counterparties. All cash deposits are placed with an approved counterparty, Royal Bank of Scotland International.

In respect of property investments, in the event of a default by a tenant, the Group will suffer a rental shortfall and additional costs concerning re-letting the property. The Investment Adviser monitors tenant arrears in order to anticipate and minimise the impact of defaults by occupational tenants.

The table below shows the Group's exposure to credit risk:

	30 June 2020 £'000	30 June 2019 £'000
Debtors (including straight lining and excluding prepayments)	5,396	1,083
Cash and cash equivalents	2,288	5,519
Total	**7,684**	**6,602**

19.4 Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its borrowings. It is the risk the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are investment properties and therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by quarterly review/monitoring of forecast and actual cash flows by the Investment Adviser and Board of Directors.

The below table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

30 June 2020	On demand £000	‹ 3 months £000	3 -12 months £000	1 - 5 years £000	› 5 years £000	Total £0000
Interest bearing loans and borrowings	-	-	-	-	41,000	41,000
Interest payable	258	330	987	5,299	403	7,277
Payables and accrued expenses	228	843	-	-	-	1,071
Lease obligations	-	13	37	200	563	813
Total	**486**	**1,183**	**1,024**	**5,499**	**41,966**	**50,161**

30 June 2019	On demand £000	‹ 3 months £000	3 -12 months £000	1 - 5 years £000	› 5 years £000	Total £0000
Interest bearing loans and borrowings	-	-	-	-	41,000	41,000
Interest payable	251	329	981	5,229	1,689	8,479
Payables and accrued expenses	376	107	360	-	-	843
Lease obligations	-	9	26	130	353	517
Total	**627**	**445**	**1,367**	**5,359**	**43,042**	**50,839**

19.5 Fair value of financial instruments

There is no material difference between the carrying amount and fair value of the Group's financial instruments.

19.6 Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is minimal as it has taken out a fixed rate bank loan.

20. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management is to ensure that it qualifies for the UK REIT status and remains within its quantitative banking covenants.

To enhance returns over the medium term, the Group utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Group's policy is to borrow up to a maximum of 40% loan to GAV (both are measured at drawdown). Alongside the Group's borrowing policy, the Directors intend, at all times, to conduct the affairs of the Group so as to enable the Group to qualify as a REIT for the purposes of Part 12 of the Corporation Tax Act 2010 (and the regulations made thereunder). The REIT status compliance requirements include 90% distribution test, interest cover ratio, 75% assets test and the substantial shareholder rule, all of which, other than the latter - see note 22 - the Group remained compliant with in this reporting period.

The monitoring of the Group's level of borrowing is performed primarily using a Loan to GAV ratio. The Loan to GAV ratio is calculated as the amount of outstanding debt divided by the total assets of the Group, which includes the valuation of the investment property portfolio. The Group Loan to GAV ratio at the period end was 37.0% (2019: 34.4%).

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. During the period, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2020

21. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Subsidiaries

Alternative Income REIT Plc as at 30 June 2020 owns 100% controlling stake of Alternative Income REIT Holdco Limited and Alternative Income REIT Holdco Limited holds 100% of Alternative Income Limited.

Directors

Directors of the Group are considered to be the key management personnel. Directors' remuneration is disclosed in note 5.

Investment Manager

AEW UK Investment Management LLP - from 1 July 2019 to 9 April 2020

The Group was party to an Investment Management Agreement with the Investment Manager, pursuant to which the Group appointed the Investment Manager to provide investment management services relating to the respective assets on a day-to-day basis in accordance with their respective investment objectives and policies, subject to the overall supervision and direction of the Board of Directors.

Under the Investment Management Agreement, the Investment Manager received a management fee which was calculated monthly at a rate equivalent to 0.75% per annum of NAV (excluding un-invested fund raising proceeds) and paid quarterly in arrears. During the period 1 July 2019 to 9 April 2020, the Group incurred £407,708 (1 July 2018 to 30 June 2019, the Group: £544,371) in respect of investment management fees and expenses of which £137,445 (30 June 2019: £133,356) was outstanding at 30 June 2020.

M7 Real Estate Ltd - from 14 May 2020 to date

M7 Real Estate Ltd was appointed as Investment Advisor on 14 May 2020. The Interim Investment Advisory agreement specifies that there are no fees payable up to 30 September 2020. From 1 October 2020, an annual management fee will be calculated at a rate equivalent of 0.50% per annum of NAV (subject to a minimum fee of £90,000 per quarter) and paid quarterly in advance.

22. EVENTS AFTER REPORTING DATE

REIT compliance

Consistent with the two previous year-ends, as part of the Group's year-end procedures, those shareholders holding more than 10% of the Company shares, were asked to confirm that their holdings were held sufficiently widely to comply with the substantial shareholder rule. Inconsistent with the previous year-ends, as at 30 June 2020, one such shareholder was unable to do so, and the non-compliance by the shareholder concerned will be dealt with in accordance with the Company's Articles of Association.

Dividend

On 6 August 2020, the Board declared an interim dividend of 1.425 pence per share in respect of the period from 1 April 2020 to 30 June 2020. This was paid on 28 August 2020 to shareholders on the register as at 14 August 2020. The ex-dividend date was 13 August 2020. (2019: On 8 August 2019, the Board declared an interim dividend of 1.375 pence per share in respect of the period from 1 April 2019 to 30 June 2019. This was paid on 30 August 2019 to shareholders on the register as at 16 August 2019. The ex-dividend date was 15 August 2019.

Sale of property

On 31 July 2020, the Group disposed of the property known as Wet n Wild, Royal Quays, North Shields for a total consideration of £3.2m. The property was pledged as part of the security for the Group's senior debt financing from Canada Life. The structure of the facility means there is no allocated loan amount, release price or other costs resulting from the sale of the asset. The Group intends to redeploy the proceeds of the sale into its growing pipeline of accretive investment assets in short order.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 £000	30 June 2019 £000 (Restated- note 6)
Assets			
Non current assets			
Investments in subsidiary companies	3	73,158	73,158
Investment property	3	2,011	2,055
		75,169	**75,213**
Current assets			
Receivables and prepayments	4	41	264
Cash and cash equivalents		108	1,485
		149	**1,749**
Total Assets		**75,318**	**76,962**
Current Liabilities			
Payables and accrued expenses	5	11,936	8,538
		11,936	**8,538**
Net assets		**63,382**	**68,424**
Equity			
Share capital	7	805	805
Capital reserve and retained earnings		62,577	67,619
Total capital and reserves attributable to equity holders of the Company		**63,382**	**68,424**
Net Asset Value per share (pence per share)		**78.74**	**85.00**

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements.

The Company's loss for the year was £1,057,229 (30 June 2019: £1,286,695 (Restated - note 6)).

The financial statements on pages 59 and 87 were approved by the Board of Directors on 19 October 2020 and were signed on its behalf by:

STEVE SMITH
CHAIRMAN

Company number: 10727886

The notes on pages 83 to 86 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Share capital £000	Share premium account £000	Capital reserve and retained earnings £000	Total capital and reserves attributable to equity holders of the Group £000
For the year ended 30 June 2020				
Balance as at 1 July 2019, as restated	**805**	**–**	**67,619**	**68,424**
Total comprehensive loss	–	–	(1,057)	(1,057)
Dividends paid	–	–	(3,985)	(3,985)
Balance at 30 June 2020	**805**	**–**	**62,577**	**63,382**
For the year ended 30 June 2019				
Balance as at 1 July 2018	**805**	**–**	**73,239**	**74,044**
Total comprehensive loss as previously reported	–	–	(1,552)	(1,552)
Effect of correction of prior year accounting error (note 6)			266	266
Total comprehensive loss as restated			(1,286)	(1,286)
Share issue costs	–	–	(7)	(7)
Dividends paid	–	–	(4,327)	(4,327)
Balance at 30 June 2019, as restated	**805**	**–**	**67,619**	**68,424**

The notes on pages 83 to 86 form an integral part of these financial statements.

NOTES TO THE COMPANY ACCOUNTS

1. CORPORATE INFORMATION

Alternative Income REIT Plc (the 'Company') is a public limited company and a closed ended Real Estate Investment Trust ('REIT') incorporated on 18 April 2017, and domiciled in the UK and is registered in England and Wales. The registered office of the Company is located at 1 King William Street, London, United Kingdom, EC4N 7AF.

The Company's Ordinary Shares were listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange on 6 June 2017.

The Company is the ultimate parent company of the Alternative Income REIT HoldCo Limited and Alternative Income Limited. Its primary activity is to hold shares in subsidiary companies and invest in direct property investments.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of cash flow statement, standards not yet effective, impairment of assets and related party transactions.

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

The financial statements of the Company follow the accounting policies of the Group laid out on pages 63 to 67.

For an assessment of going concern refer to the accounting policy 2.4 of the Group on page 64.

The current period is for a period of 12 months from 1 July 2019 to 30 June 2020. The comparative period is for a period of 12 months from 1 July 2018 to 30 June 2019.

Investments in Subsidiary Companies

Investments in subsidiary companies which are all 100% owned by the Company are included in the statement of financial position at cost less provision for impairment.

Impairment of non-financial assets

The carrying amounts of the Company's investment in subsidiaries are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE COMPANY ACCOUNTS

3. INVESTMENTS

3a. Investments in Subsidiary Companies

	30 June 2020 £'000	30 June 2019 £'000
At the beginning of the year	73,158	71,309
Investment in subsidiary companies	–	1,849
At the end of the year	**73,158**	**73,158**

A list of subsidiary undertakings at 30 June 2020 is included on note 17 of the Consolidated Financial Statements.

The Directors have considered the recoverability of the investment in subsidiary company by comparing the carrying value of the investment to the net asset value of the subsidiary. The directors consider the net asset value of the subsidiary to be a reliable proxy to the recoverable amount as the properties held by the company are carried at fair value. The net asset value of the subsidiary company exceed the carrying amount of the investment in subsidiary and the Directors have concluded that no impairment is necessary.

3b. Investment property

	30 June 2020 £'000	30 June 2019 £'000 (Restated - note 6)
At the beginning of the year	2,055	–
Purchases in the year	–	2,203
Revaluation of investment property	(30)	(143)
Adjustment to fair value for rent smoothing	(14)	(5)
	2,011	**2,055**

4. RECEIVABLES AND PREPAYMENTS

Receivables	30 June 2020 £'000	30 June 2019 £'000 (Restated - note 6)
Rent debtor	65	–
Less: Provision for impairment of trade receivables	(65)	–
Rent smoothing debtor – rent indexation	19	5
VAT receivable	17	251
	36	**256**
Prepayments		
Other prepayments	5	8
	5	**8**
Total	**41**	**264**

NOTES TO THE COMPANY ACCOUNTS

5. PAYABLES AND ACCRUED EXPENSES

	30 June 2020 £'000	30 June 2019 £'000 (Restated - note 6)
Due to subsidiaries	11,471	8,106
Deferred income	30	30
Trade creditors	6	–
Accruals	368	295
Other creditors	61	107
Total	**11,936**	**8,538**

Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

6. PRIOR YEAR RESTATEMENT

During the process of the preparation of the Company's financial statements for the year ended 30 June 2020, it was noted that the registered owner of Silver Trees, Nailsea, Bristol is Alternative Income Limited instead of the Company. Transactions relating to the property from the acquisition date of January 2019 to 30 June 2019 were incorrectly accounted for in the books of the Company. This correction represents a prior period accounting adjustment which is to be accounted for retrospectively in the financial statements. Consequently, the Company has adjusted the relevant comparative amounts presented in the current period's financial statements affected by the accounting restatement.

The following table summarises the impact on the Company's financial statements:

	30 June 2019, as previously reported £000	Adjustments £'000	30 June 2019, as restated £000
Balance sheet			
Investment property	8,675	(6,620)	2,055
Receivables and prepayments	294	(30)	264
Payables due to subsidiary	14,927	(6,821)	8,106
Other payables	527	(95)	432
Payables and accrued expenses	15,454	(6,916)	8,538
Comprehensive income/(loss)			
Comprehensive loss	(1,552)	266	(1,286)

The reduction in investment property represents the fair value (net of rent smoothing adjustment of £30 (£'000)) of Silver Trees, Nailsea, Bristol as at 30 June 2019 while the £266 (£'000) adjustment on comprehensive loss represents the property income, expense and valuation surpluses that are now recognised in the subsidiary accounts. The net effect of the adjustment has been recognised against the intercompany balances with the subsidiary.

NOTES TO THE COMPANY ACCOUNTS

7. DIVIDENDS PAID

	30 June 2020 £000	30 June 2019 £000
Fourth interim dividend declared in respect of the quarter ended 30 June 2019 at 1.375p per Ordinary Share (2019: quarter ended 30 June 2018 at 1.25p per Ordinary Share*)	1,107	1,006
First interim dividend paid in respect of the quarter ended 30 September 2019 at 1.375p per Ordinary Share (2019: quarter ended 30 September 2018 at 1.375p per Ordinary Share)	1,107	1,107
Second interim dividend declared in respect of the quarter ended 31 December 2019 at 1.375p per Ordinary Share (2019: quarter ended 31 December 2018 at 1.375p per Ordinary Share)	1,107	1,107
Third interim dividend declared in respect of the quarter ended 31 March 2020 at 0.83p per Ordinary Share (2019: quarter ended 31 March 2019 at 1.375p per Ordinary Share)	664	1,107
Total dividends paid during the year	**3,985**	**4,327**
Fourth interim dividend declared in respect of the quarter ended 30 June 2019 at 1.375p per Ordinary Shares (2019: quarter ended 30 June 2018 at 1.25p per Ordinary Share*)	(1,107)	(1,006)
Fourth interim dividend declared in respect of the quarter ended 30 June 2020 at 1.425p per Ordinary Share*	1,147	1,107
Total dividends in respect of the year	**4,025**	**4,428**

* Dividends declared after the year end are not included in the Company's Financial Statements as a liability.

8. ISSUED SHARE CAPITAL

	For the year ended 30 June 2020		For the year ended 30 June 2019	
	£'000	Number of Ordinary Shares	£'000	Number of Ordinary Shares
Ordinary Shares issued and fully paid				
At the beginning of the year	805	80,500,000	805	80,500,000
At the end of the year	805	80,500,000	805	80,500,000

9. EVENTS AFTER REPORTING DATE

Dividend

On 6 August 2020, the Board declared an interim dividend of 1.425 pence per share in respect of the period from 1 April 2020 to 30 June 2020. This was paid on 28 August 2020 to shareholders on the register as at 14 August 2020. The ex-dividend date was 13 August 2020. (2019: On 8 August 2019, the Board declared an interim dividend of 1.375 pence per share in respect of the period from 1 April 2019 to 30 June 2019. This was paid on 30 August 2019 to shareholders on the register as at 16 August 2019. The ex-dividend date was 15 August 2019).

REIT compliance

Consistent with the two previous year-ends, as part of the Group's year-end procedures, those shareholders holding more than 10% of the Company shares, were asked to confirm that their holdings were held sufficiently widely to comply with the substantial shareholder rule. Inconsistent with the previous year-ends, as at 30 June 2020, one such shareholder was unable to do so, and the non-compliance by the shareholder concerned will be dealt with in accordance with the Company's Articles of Association.

EPRA UNAUDITED PERFORMANCE MEASURE CALCULATIONS

EPRA Yield calculations		2020 £000	2019 £000
Investment property – wholly owned		104,760	112,990
Allowance for estimated purchasers' costs		7,857	7,683
Gross up completed property portfolio valuation	B	**112,617**	**120,673**
Annualised cash passing rental income		6,496	6,055
Property outgoings		(55)	(40)
Annualised net rents	A	**6,440**	**6,015**
Add: notional rent expiration of rent free periods or other lease incentives		1,407	1,578
Topped-up net annualised rent	C	**7,847**	**7,593**
EPRA NIY	A/B	5.72%	4.98%
EPRA "topped-up"	C/B	6.97%	6.29%

EPRA Cost Ratios		2020	2019
Include:			
Administrative/operating expense line per IFRS income statement		1,491	1,164
Net service charge costs/fees		–	–
Property operating expense		56	162
Other operating income/recharges intended to cover overhead expenses less any related profits		–	–
Share of Joint Ventures expenses		–	–
Investment Property depreciation		–	–
Ground rent costs		–	–
Service charge costs recovered through rents but not separately invoiced		–	
EPRA Costs (including direct vacancy costs)	A	1,547	1,326
Direct vacancy costs		–	–
EPRA Costs (excluding direct vacancy costs)	B	1,547	1,326
Gross Rental Income		7,351	6,907
Less: service fee and service charge costs components of Gross Rental Income (if relevant)		–	–
Add: share of Joint Ventures (Gross Rental Income less ground rent costs)		–	–
Gross Rental Income (C)	C	7,351	6,907
EPRA Cost Ratio (including direct vacancy costs)	A/C	**21.05%**	**19.20%**
EPRA Cost Ratio (excluding direct vacancy costs)	B/C	**21.05%**	**19.20%**

Vacancy rate		2020 £000	2019 £000
ERV vacant		–	–
ERV total	%	6,729	6,686
Vacant space		**0.00%**	**0.00%**

COMPANY INFORMATION

Share Register Enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on 0370 707 1874 or email: web.queries@computershare.co.uk.

Changes of name and/or address must be notified in writing to the Registrar, at the address shown on page 92. You can check your shareholding and find practical help on transferring shares or updating your details at www.investorcentre.co.uk. Shareholders eligible to receive dividend payments gross of tax may also download declaration forms from that website.

Share Information

Ordinary £0.01 shares 80,500,000

SEDOL Number BDVK708

ISIN Number GB00BDVK7088

Ticker/TIDM AIRE

Share Prices

The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.

Frequency of NAV publication

The Group's NAV is released to the London Stock Exchange on a quarterly basis and is published on the Company's website www.alternativeincomereit.com.

Annual and Interim Reports

Copies of the Annual and Interim Reports are available from the Group's website.

Financial Calendar

26 November 2020	Annual General Meeting
31 December 2020	Half-year end
March 2021	Announcement of interim results
30 June 2021	Year end
October 2021	Announcement of annual results

GLOSSARY

Alternative Investment Fund Manager or AIFM or Investment Manager	Langham Hall Fund Management LLP.
Company	Alternative Income REIT plc.
Contracted rent	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
Earnings Per Share ('EPS')	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
EPRA cost ratio (including direct vacancy costs)	The ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses.
EPRA cost ratio (excluding direct vacancy costs)	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
EPRA Earnings Per Share	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.
EPRA NAV	NAV adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.
EPRA NNNAV	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.
EPRA Net Initial Yield ('NIY')	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.
EPRA Topped-Up Net Initial Yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
EPRA Vacancy Rate	Estimated Rental Value of vacant space as a percentage of the Estimated Rental Value of the whole portfolio.
Equivalent Yield	The internal rate of return of the cash flow from the property, assuming a rise to Estimated Rental Value at the next review or lease expiry. No future growth is allowed for.
Estimated Rental Value ('ERV')	The external valuer's opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
External Valuer	An independent external valuer of a property. The Group's External Valuer is Knight Frank LLP.
Fair value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FCA	The Financial Conduct Authority.
Gross Asset Value ('GAV')	The aggregate value of the total assets of the Group as determined in accordance with IFRS.
IASB	International Accounting Standards Board.

GLOSSARY CONTINUED

IFRS	International Financial Reporting Standards, as adopted by the European Union.
Investment Adviser	M7 Real Estate Limited.
IPO	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and admission of Ordinary Shares to the premium listing segment of the Official List on 6 June 2017.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentive is amortised through the Consolidated Statement of Comprehensive Income on a straight-line basis until the lease expiry.
Loan to Value ('LTV')	The value of loans and borrowings utilised (excluding amounts held as restricted cash and before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the valuer) and the fair value of other investments.
Net Asset Value ('NAV')	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Net Asset Value per share	Equity shareholders' funds divided by the number of Ordinary Shares in issue.
Net equivalent yield	Calculated by the Group's External Valuers, net equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.
Net Initial Yield ('NIY')	The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
Net rental income	Rental income receivable in the period after payment of ground rents and net property outgoings.
Ongoing Charges	The ratio of annualised total administration and property operating costs expressed as a percentage of average NAV throughout the period.
Ordinary Shares	The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.
Passing rent	The gross rent, less any ground rent payable under head leases.
pps	Pence per share.
REIT	A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation Tax Act 2010. Subject to the continuing relevant UK REIT criteria being met, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
Reversion	Increase in rent estimated by the Company's External Valuers, where the passing rent is below the ERV.
Share price	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.

GLOSSARY CONTINUED

Total returns	The returns to shareholders calculated on a per share basis by adding dividend paid in the period to the increase or decrease in the share price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
Total Shareholder Return	The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.
Weighted Average Unexpired Lease Term ('WAULT')	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income (including rentfrees).

SHAREHOLDER INFORMATION

Directors

Steve Smith (Independent non-executive Chairman)
Jim Prower (Independent non-executive Director)
Alan Sippetts (Independent non-executive Director)

Registered Office

1 King William Street
London
EC4N 7AF

AIFM

Langham Hall Fund Management LLP
1 Fleet Place
8th Floor
London
EC4M 7RA

Property Manager

Mason Owen and Partners Limited
7th Floor
20 Chapel Street
Liverpool
L3 9AG

Corporate Broker

Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

Legal Adviser to the Company

Travers Smith LLP
10 Snow Hill
London
EC1A 2AL

Company Website

https://www.alternativeincomereit.com/

Depositary

Langham Hall UK Depositary LLP
8th Floor
1 Fleet Place
London
EC4M 7RA

Investment Adviser and Administrator

M7 Real Estate Limited
3rd Floor
The Monument Building
11 Monument Street
London
EC3R 8AF

Consultant Portfolio Manager

King Capital Consulting Limited
140a Tachbrook Street
London
SW1V 2NE

Company Secretary

Hanway Advisory Limited
1 King William Street
London
EC4N 7AF

Registrar

Computershare Investor Services
PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Valuer

Knight Frank LLP
55 Baker Street
London
W1U 8AN

Communications Advisor

Maitland/AMO
3 Pancras Square
London
N1C 4AG