



Continuing to **invest in our portfolio** for future growth and shareholder value.

<b>Property Assets</b>	<b>Net Assets</b>
<b>£646m</b> <b>↑21.2%</b>	<b>£417m</b> <b>↑12.7%</b>
(2015: £533m)	(2015: £370m)

We have continued to reshape the portfolio, and have invested a further £73 million into the property market, through five acquisitions, and have made three disposals totalling £9.4 million. The increase in the size of the portfolio reflects both valuation gains and the new acquisitions.

 More information on our **significant acquisitions** can be found in our Investment Manager's Report on pages 24 to 41

Read our Case Studies demonstrating **Strategy in Action** on pages 12 to 19



 You can see our achievements at [www.picton.co.uk/about-us/our-history](http://www.picton.co.uk/about-us/our-history)



# WELCOME TO OUR 2016 ANNUAL REPORT

## WHO WE ARE

**Picton Property Income Limited** is an income focused, internally managed investment company, which invests in a diversified commercial property portfolio located across the United Kingdom.

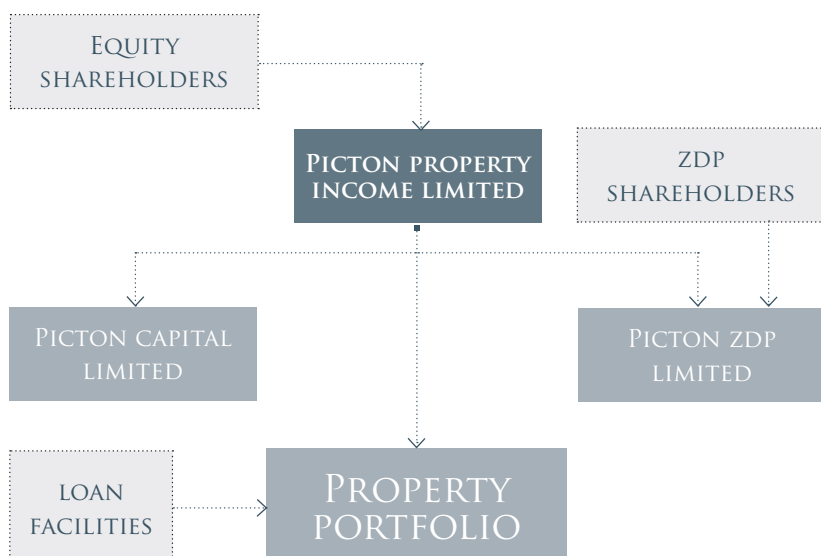
Established in 2005, Picton has a main market listing on the London Stock Exchange. We have a portfolio of UK commercial property valued at £655 million, comprising 58 assets with around 400 occupiers. The portfolio is, by value, predominantly invested in the office and industrial sectors (75%) and is biased towards London and the South East (60%). We invest in assets where we believe there are opportunities to enhance either income or value and this is primarily achieved by providing space that meets our occupiers' requirements.

## OUR STRUCTURE

The Board of Picton Property Income Limited is fully responsible for the **direction and control** of the Company, including investment policy and strategy.

The investment manager to the Group is Picton Capital Limited, a wholly owned subsidiary company, which implements investment policy once determined by the Board. Our investment management team comprises 12 permanent employees and includes six property professionals, three qualified accountants and three further support employees. The team's **entrepreneurial leadership style and complementary set of skills** enable them to implement effective investment policies and strategies that drive sustainable long-term growth. The team is led by its Chief Executive, Michael Morris, and his review of the year is set out on pages 20 and 21.

One of the benefits of the Company's structure is that management costs are not linked to the size of the Company, which is unlike most traditional investment companies. This means that, with growth, the Company benefits from increasing economies of scale, which will enhance returns.



## WHY INVEST IN US

Our investment objective is to **provide shareholders with an attractive level of income**, together with the potential for capital growth, by investing in the principal commercial property sectors.

Our key attributes are:

- 1 Offering diversified exposure to the UK commercial property market.
- 2 Having one of the highest and fully covered dividend yields within the sector and above the UK REIT average.
- 3 Utilising gearing to enhance returns over the long term.
- 4 Actively managing our assets with an occupier focused and opportunity led approach. This has continued to deliver outperformance at a portfolio level, ahead of the MSCI IPD Quarterly Benchmark.
- 5 Having an internalised management structure creating alignment with shareholders and generating economies of scale through growth.

“We are pleased to report a total profit of £64.8 million, attributed to an income profit of £19.9 million and capital gains of £44.9 million, which have produced a total return for the year of 17.9%.”

“The return from the property portfolio was 14.3%, ahead of the MSCI IPD Quarterly Benchmark for the year. The portfolio has been reshaped following a combination of non-core asset disposals and new acquisitions. This has increased the average lot size by some 70% over the last four years.”

## OUR PURPOSE

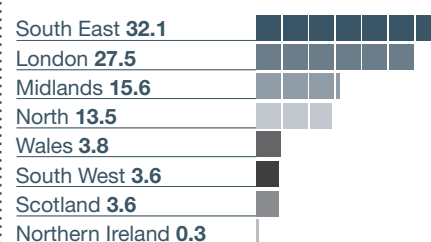
We invest in a diversified commercial property portfolio located across the United Kingdom. We provide space to meet occupiers' requirements, and in turn **enhance value** for our shareholders.

## WHAT MAKES US DIFFERENT

We have **depth of expertise**; however, our management costs are not linked to the size of the Company, which is unlike most traditional investment companies.

This means that, with growth, the Company benefits from increasing economies of scale, which in turn enhance returns for investors.

## Geographical weightings (%)



See page 26 for more details



## IN THIS YEAR'S REPORT

### CHIEF EXECUTIVE'S REVIEW

How we have delivered against our five strategic priorities

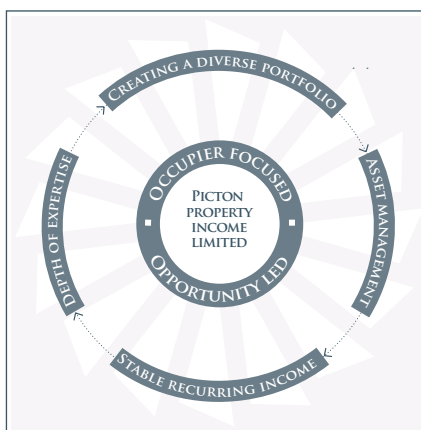
 See page 20 for more details



### OUR BUSINESS MODEL

How we aim to deliver long-term shareholder value

 See page 10 for more details



### OUR TOP 10 ASSETS

Our largest assets represent over 46% of the total portfolio, by value

 See page 29 for more details

<b>10 PARKWAY INDUSTRIAL, LONDON, E15</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>11 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>12 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>13 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%
<b>14 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>15 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>16 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>17 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%
<b>18 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>19 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>20 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%	<b>21 BATHWAY INDUSTRIAL, ESTER, HARTFORD</b> Acquisition date: 01/01/14 Property type: Industrial Tenants: 1 Assets: 100,000 sq ft Occupancy rate: 100%

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#### Look out for these icons:

 Read more information in this Report

 Visit [www.pilton.co.uk](http://www.pilton.co.uk) for more details

# 2016 HIGHLIGHTS

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## STRONG FULL YEAR RESULTS

“Our overall performance was again strong for the year, with a total return of 17.9%. The net asset value increased by 12.7%, our EPRA earnings per share were up by 8.3% and our Ongoing Charges ratio fell again, to 1.1%.”

Total return for the year of

**17.9%**

Increase in net assets of 12.7% to

**£417.1m**

EPRA earnings has increased by 30.1% to

**£19.9m**

Reduction in Ongoing Charges ratio by 8% to

**1.1%**

### CONTINUED GROWTH IN NAV, EARNINGS & DIVIDENDS

- Increase in EPRA NAV per share of 12.7%, to 77 pence per share
- EPRA earnings per share increased by 8.3% to 3.7 pence per share
- Dividend increased by 10% to 3.3 pence per share
- Dividends paid of £17.8 million, with a dividend cover of 112%

### MAINTAINED FOCUS ON ASSET MANAGEMENT AND CONTINUED TO OUTPERFORM MSCI IPD

- Total property return of 14.3%, outperforming the MSCI IPD Quarterly Benchmark of 11.3%
- Improved portfolio occupancy from 95% to 96%
- 15 lease renewals and re-gears retaining £2.9 million per annum, on average 2.1% above the March 2015 estimated rental value
- 35 lettings completed securing £2.3 million in additional annual income, on average 3.8% above the March 2015 estimated rental value

### ONGOING INVESTMENT AND REPOSITIONING OF PORTFOLIO

- Invested £73.1 million in five new property assets during the year
- Sold three assets for £9.4 million, on average 11% ahead of the March 2015 valuation
- Over £4.4 million invested into refurbishment projects
- 19% increase in average lot size to £11.3 million

### IMPROVING DEBT STRUCTURE

- Net loan to value of 34.6%, with a weighted average debt maturity of 10.7 years
- 94% of debt facilities fixed with a weighted average interest rate of 4.4%
- Post year end, entered into a new five year £27.0 million revolving credit facility
- £37.2 million of undrawn facilities now available to meet zero dividend preference share liability

“Picton has produced another strong set of results, demonstrating the progress we have made over the last 12 months.”

£646m



# 2016 EPRA MEASURES

## PICTON AND EPRA BEST PRACTICE RECOMMENDATIONS

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector.

EPRA provides effective and continuous leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners.

We support EPRA's drive to bring parity to the comparability and quality of information provided in this Report to investors and other key stakeholders. With this in mind, key areas of narrative in the Report have been highlighted using the EPRA logo to aid identification.

The six key performance measures are set out here with supporting calculations and further disclosures, including sustainability measures, on pages 97 to 101. We have also highlighted other specific metrics throughout the Report.

## EPRA PERFORMANCE MEASURES (EPM) – AN EXPLANATION

EPRA Best Practices Recommendations recognise the six key performance measures detailed opposite, something we fully support. As an EPRA member, we aim to be as transparent with our EPRA Best Practices Recommendation reporting as possible, and we felt the inclusion of the purpose against each measure would be helpful for our audiences and help give context. We have also cross-referenced these specific measures to more detailed information found in our Report.



## EPRA PERFORMANCE MEASURES AND PURPOSE

	2016	2015	2014
EPRA earnings	<b>£19.9m</b>	£15.3m	£13.3m
EPRA earnings per share	<b>3.7p</b>	3.4p	3.7p
EPRA NAV per share	<b>77p</b>	69p	56p
EPRA NNNNAV per share	<b>73p</b>	65p	61p
EPRA cost ratio (including direct vacancy costs)	<b>22.8%</b>	24.9%	23.5%
EPRA cost ratio (excluding direct vacancy costs)	<b>18.9%</b>	19.1%	18.0%
EPRA net initial yield	<b>5.6%</b>	5.9%	6.5%
EPRA 'topped-up' net initial yield	<b>6.2%</b>	6.5%	6.7%
EPRA vacancy rate	<b>3.9%</b>	4.8%	8.7%

### EPRA EARNINGS:

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.

See page 97 for more details

### EPRA NAV:

Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with long-term investment strategy.

See page 97 for more details

### EPRA NNNNAV:

Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.

See page 97 for more details

### EPRA COST RATIOS:

A ratio to enable meaningful measurement of the changes in a company's operating costs as a percentage of rental income.

See page 98 for more details

### EPRA NET INITIAL YIELD AND 'TOPPED-UP' NET INITIAL YIELD:

A comparable measure for portfolio valuations. This measure should make it easier for investors to judge for themselves, how the valuation of a portfolio compares with others. The EPRA NIY is based on the passing rents at the balance sheet date, the EPRA 'topped-up' NIY also includes rents where there are unexpired lease incentives at the balance sheet date.

See page 98 for more details

### EPRA VACANCY RATE:

A "pure" (%) measure of investment property space that is vacant, based on ERV.

See page 98 for more details





Pictured:  
Parkbury Industrial Estate, Radlett



# CHAIRMAN'S STATEMENT

"We have now passed our tenth anniversary since launch and I am pleased to record that over this period we have distributed over £150 million in dividends to our shareholders and our portfolio has outperformed the MSCI IPD Quarterly Benchmark."

Total profit

**£64.8m**

Dividends paid

**£17.8m**

Dividend cover

**112%**

Total Return (%)

2016	17.9	
2015	27.4	
2014	21.6	



Picton has produced another strong set of results, demonstrating the progress we have made over the last 12 months.

## PERFORMANCE

We are pleased to report a total profit of £64.8 million, attributed to an income profit of £19.9 million and capital gains of £44.9 million, which have produced a total return for the year of 17.9%. EPRA earnings per share have risen by 8.3% this year and net asset value per share is now 77 pence, an increase of 12.7%. At a portfolio level we have delivered a total property return of 14.3%, which is around 300 basis points ahead of the MSCI IPD Quarterly Benchmark.

Property performance is covered in more detail within both the Chief Executive's Review and the Investment Manager's Report, and I am delighted to advise that not only has the portfolio outperformed its MSCI IPD Quarterly Benchmark over 12 months, but more importantly over the four year period since we adopted our internalised management model.

Picton continues to perform well against many metrics, despite a more uncertain economic backdrop and as returns for the property market appear to be moderating after several strong years.

In line with the wider real estate equities market, our share price performance has lagged the growth in net asset value. With the EU referendum vote last week, the share price discount has widened and currently stands at 15% to the March net asset value. A primary focus of the Board is to ensure that this does not disrupt our operational progress.

We have now passed our tenth anniversary since launch and I am pleased to record that over this period we have distributed over £150 million in dividends to our shareholders and our portfolio has outperformed the MSCI IPD Quarterly Benchmark.

## PORTFOLIO RESHAPING

Since March 2015, we have invested a further £73 million into the property market, through five acquisitions and have made three disposals totalling £9.4 million.

The portfolio is now valued at £655 million and is 21% larger than last year, reflecting both valuation gains and new acquisitions.

We continue to have an overweight position to the industrial, warehouse and logistics sectors, whilst at the same time remaining underweight to the underperforming retail sector.

We have made some very good progress with the assets over the year, across all our sectors, but have been particularly encouraged by our progress at Angel Gate and also the value creation at recent acquisitions in Gloucester, Chatham and Radlett.

A key differentiator of the Picton model is the economies of scale that can be achieved through growth. By reshaping the portfolio in this way, and with the same team, these efficiencies have been evident.

## INCOME AND DIVIDENDS

Our EPRA earnings, after the deduction of all corporate costs and interest payments, was £19.9 million, 30% higher than the £15.3 million recorded in 2015.

In May 2015, we increased the annual dividend payable to 3.3 pence, an increase of 10% compared with the previous rate, which had been set in 2012. Despite this increased payment, our dividend cover has remained at a healthy level of 112%, which has contributed approximately £2 million to our growth in net assets this year.

The Ongoing Charges ratio has again fallen over the year, demonstrating how our structure is able to deliver economies of scale as we continue to grow the portfolio. Over the last three years, the Ongoing Charges ratio has fallen by more than 35%.

As a Board we will continue to review the level of dividends, but are inclined, in the short term, to maintain a prudent approach in light of current macroeconomic and political risks.

## GEARING

I have spoken previously about managing gearing through the property cycle. Gearing has again made a positive contribution to our results this year. Our level of gearing has generally been on a downward trend, as the property market has been in a broad recovery since 2012 and our successful placing programme generated new equity and a larger asset base.

Our loan to value ratio as at 31 March 2016 was 34.6%. This has increased slightly from last year, due to the investment of the additional cash held into new acquisitions, as discussed above, but is down from 47.7% two years ago.

In addition, we have made use of our revolving credit facility to part fund a highly income accretive acquisition in the final quarter of the year. The full income benefit of this acquisition will be reflected in future results.

The Group's zero dividend preference shares mature in October this year. We intend to repay these in full at maturity, and have recently concluded a new five year £27 million revolving credit facility, which can be used for the repayment. The new facility will provide finance at a much lower rate, and will give us greater operational flexibility. Once the zero dividend preference shares are repaid, we expect to see a marked reduction in finance costs which will improve earnings next year.

## RECOGNITION

Notwithstanding the clear financial success we have delivered this year, it is always positive for our efforts to be recognised by others. This year we have been either shortlisted or have won awards from the European Public Real Estate Association, the British Council for Offices, The Association of Investment Companies/Investment Week, FT/Investment Chronicle Wealth Awards and MSCI/IPF Investment Awards.

In particular, our strong performance over a one, two and three year horizon led to us being named Best Large Investment Trust, by Money Observer, which was particularly pleasing as this was entirely based on our financial results compared to 117 other investment companies, all larger than £300 million in terms of market capitalisation.

## SHAREHOLDER ENGAGEMENT

We take our responsibilities to shareholders very seriously and are keen to engage with shareholders on our register throughout the year.

Our website has been upgraded during the year to make it more user friendly (via both computer and tablet) with a specific section for investors, providing more detailed information. Shareholders are also now able to sign up for email alerts to gain access to financial reports and newsletters. Further information is available at [www.picton.co.uk](http://www.picton.co.uk)

In addition, we have recently undertaken an independent investor perception audit, which we have found helpful in forward planning for the business.

## LEGISLATIVE DEVELOPMENTS

There has been much discussion and debate in the press regarding offshore investments, and recently the UK government has announced its proposals in respect of the Base Erosion and Profit Shifting (BEPS) project. Until detailed legislation is published it is unclear to what extent these proposals may impact the Group, and indeed the real estate industry generally. Along with our advisers, we are keeping this subject under close review.

We continue to assess the efficiency of the overall corporate structure and whether conversion to a UK REIT would benefit shareholders. However, we believe the current structure remains appropriate, unless and until we are able to identify clear advantages in converting.

## OUTLOOK

The referendum on membership of the EU, held last week, has dominated the news for some time and caused considerable uncertainty in financial markets. The result, for the UK to leave the European Union, is bound to cause a further period of uncertainty, and more volatility in the markets. The full implications of this vote are difficult to predict, for both the UK economy generally and the commercial property market more specifically.

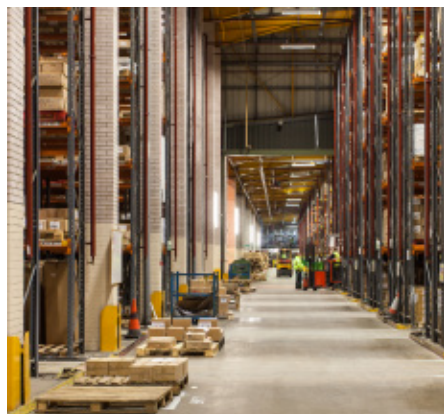
We have been cautious regarding the short term and have planned accordingly. Our recently announced revolving credit facility is one example of this.

Despite this, we believe that the portfolio is well positioned, with overweight positions to the better performing office and industrial sectors. Our occupancy rate is ahead of the market, we have a diversified and stable income flow, and a well covered dividend.

I am confident that the Company is in a good position to be able to navigate through these uncertain times.

**Nicholas Thompson**  
Chairman  
27 June 2016

# OUR MARKETPLACE



“Whilst we expect the impact of the EU referendum to result in lower economic growth, at least in the short term, this may be offset by looser monetary policy. The Bank of England has indicated that it will take additional measures as required to protect the economy.”

## ECONOMIC BACKDROP

The past 12 months have been an extraordinary year of political and economic uncertainty, which has led to increased risk in global financial markets.

Global economic issues have included the slowdown in growth in China, the fall in oil prices, negative interest rates and deflation in Europe. In the last few days the UK's decision to leave the European Union has added further volatility to financial markets.

## UK ECONOMY

At this early stage, the full impact of the changes to the UK's relationship with the rest of Europe is unclear, in particular how the UK economy, financial markets and trade might be affected. In the short term, until the terms of exit are finalised, there will be no immediate change to the UK's trading position with the EU.

The uncertainty surrounding the EU referendum and a weakening manufacturing sector caused a slow down in the first quarter of 2016 in particular. Based on preliminary estimates UK GDP grew by 2.1% in the year to March 2016 compared to 2.4% in the year to March 2015.

The unemployment rate at the end of April 2016 was 5.0%, down from 5.5% a year ago and at its lowest level since 2005. There were 23 million people working full-time at the end of April, 304,000 more than a year earlier. Average weekly earnings in the three months to April including bonuses rose by 2.0% compared to a year earlier.

Figures from the Office of National Statistics show that CPI inflation rose by 0.3% in the year to May 2016 which is relatively unchanged from 2015, but well below the Monetary Policy Committee's target of 2.0%.

Against this backdrop, ten year gilt yields at the end of March 2016 stood at 1.5% compared to 1.7% at the end of March 2015. The Bank of England base rate has not changed over the course of the last 12 months and remains at 0.5%.

## UK PROPERTY MARKET

The MSCI IPD Quarterly Index shows that the total return for All Property in the year to March 2016 was 11.1%, comprising 5.9% capital growth and 4.9% income return. In terms of total return, industrial and offices were the two best performing sectors delivering almost double the returns recorded for retail.

The MSCI IPD Quarterly Index shows yields have remained relatively stable in the year. However, an improving UK economy with a strengthening occupational market from growing employment levels and a low supply of available space has helped commercial property rents rise over the course of the last 12 months. Total return figures for the period showed income return making up a bigger component of total returns.

Capital growth has slowed, growing by 5.9% in the year to March 2016 compared to 11.2% in the year to March 2015. However, rents have increased over the same period, growing by 4.0% in the year to March 2016 compared to 3.2% in the year to March 2015.

### Pictured left to right:

Grantham Book Services, Grantham,  
180 West George Street, Glasgow and  
Colchester Business Park, Colchester



The impact of the March 2016 budget and the resultant increase in stamp duty had a negative one off impact in March. Since that date the MSCI IPD monthly index recorded positive, but slower, growth in both April and May.

The MSCI IPD Index recorded an occupancy rate of 91.4% in March 2016, relatively unchanged from 91.5% in March 2015. The highest occupancy was recorded for retail at 95.3% (March 2015: 94.4%) followed by industrial at 90.7% (March 2015: 92.3%) and offices at 86.4% (March 2015: 86.5%).

According to Property Data, investment volumes over the year remained stable but slowed down in the first quarter of 2016, possibly a reflection of the EU referendum. Total investment in the year to March 2016 totalled £65.9 billion compared to £70.0 billion in the year to March 2015. Uncertainty surrounding the outcome of the referendum resulted in investment in the first quarter of 2016 falling by 26% to £13.8 billion, compared to the first quarter in the previous year.

Official figures from the Bank of England showed total outstanding debt to commercial property at the end of March stood at £151 billion. At the end of March 2016, net new lending to property was £1.5 billion compared to -£1.3 billion in March 2015. Lending has improved since the previous year and since February 2016 has seen a significant uplift; however, figures can be inconsistent month to month, and therefore should be viewed with caution.

Whilst we expect the impact of the EU referendum to result in lower economic growth, at least in the short term, this may be offset by looser monetary policy. The Bank of England has indicated that it will take additional measures as required to protect the economy.

It is too early to assess the impact of the decision in the EU referendum on future capital values. Looking at the UK commercial property market as a whole, on average capital values still remain some 20% lower than their peak in June 2007, and only markets in London have seen capital appreciation relative to that date. This means that in many markets a lack of development activity and limited supply should be supportive of current pricing.

## MARKET TRENDS

### INDUSTRIAL MARKET TRENDS

Industrial total returns were 14.3% in the year to March 2016. Returns comprised 5.4% income return and 8.6% capital growth. Rental growth in the year was 4.5%.

The supply of floor space within the industrial sector has been low for several years, which, together with strong occupier demand and positive rental growth prospects, has led to increased speculative development.

Consensus forecasts suggest that the industrial sector is expected to outperform in the medium term.

### RETAIL MARKET TRENDS

Retail total returns were 7.6% in the year to March 2016. Returns comprised 5.2% income return and 2.3% capital growth. Rental growth in the year was 1.4%.

Online retailing has caused a structural shift in how people shop, which has exacerbated the oversupply of retail. Whilst London markets and other destination locations have been less affected, the performance of retail over the year has varied by geography and retail segment. Standard Retail in London and the South East and retail warehouses have performed well.

### OFFICE MARKET TRENDS

Office total returns were 14.8% in the year to March 2016. Returns comprised 4.2% income return and 10.2% capital growth. Rental growth in the year was 7.8%.

In London, office rental growth has slowed, although it remains at a higher level than in regional markets. Across all key regional centres, take-up has increased over the year and at the end of 2015 was above its five year average. In 2015 regional take-up grew into the double digits for five of the six main key centres. Most notable was Manchester, which was the top performer in terms of take-up.

Looking ahead, regional office rents are at a lower base compared to London, which, together with improving rental growth from growing occupier demand, is likely to result in the sub-sector outperforming.

#### MSCI IPD All Property total return

**11.1%**

#### MSCI IPD capital value growth

**5.9%**

#### MSCI IPD rental growth

**4.0%**

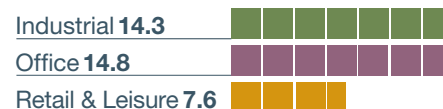
#### MSCI IPD occupancy

**91.4%**

#### MSCI IPD All Property total return (%)



#### All Property sector returns 2016 (%)



# OUR BUSINESS MODEL

We invest in commercial property and own a portfolio of 58 assets located throughout the United Kingdom.

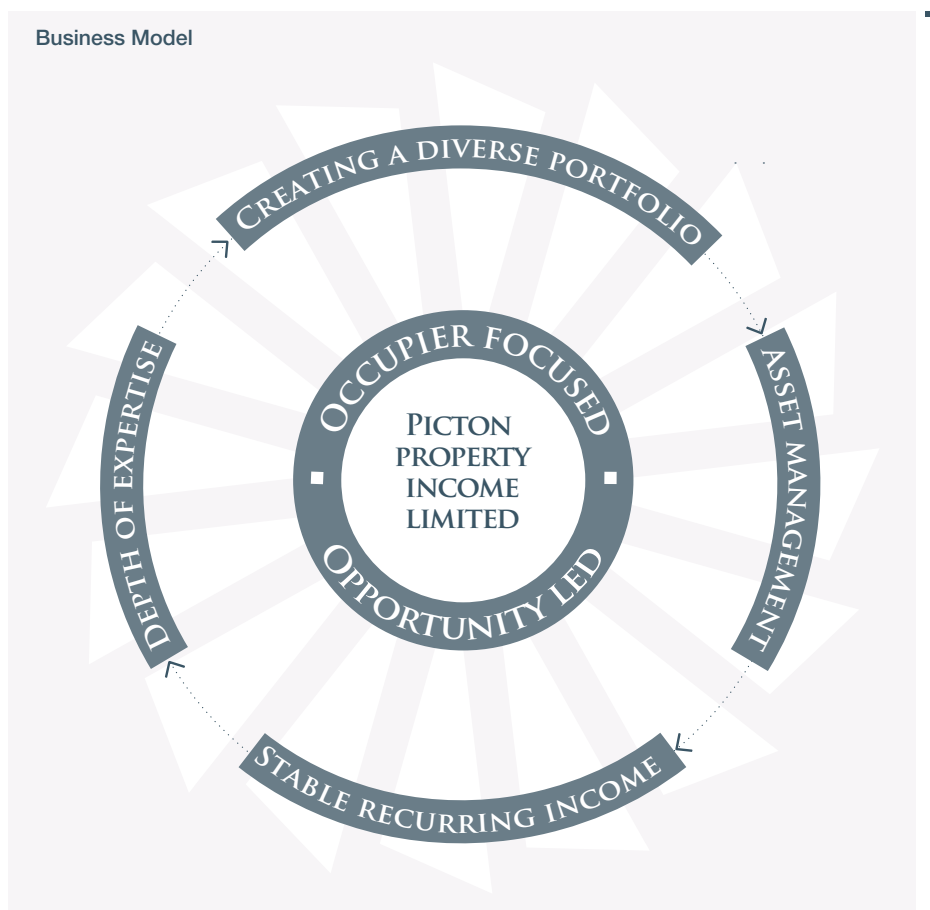
The portfolio covers the main commercial property sectors of office, industrial, retail, retail warehouse and leisure, and has around 400 occupiers providing a diversified income stream from a wide range of businesses. The majority of this income is paid out to investors in the form of quarterly dividends, after deducting operating and financing costs.

The Group is managed and controlled by its Board which is based in Guernsey. The Company's Investment Restrictions are set out on our website at [www.picton.co.uk](http://www.picton.co.uk)



Read more in our **Investment Manager's Report** on pages 24 to 41

## Business Model



### CREATING A DIVERSE PORTFOLIO

Our portfolio is diversified, not only in terms of sector and geographic allocation, but also by income concentration, which reduces the risk profile. Our investment objective enables us to consider opportunities across the UK. We look to invest in assets where we believe we can drive either income or value in the medium term, and remain focused on total returns.

### ASSET MANAGEMENT

Our asset management team has a hands-on approach and maintains a direct relationship with our occupiers. Our aim, using our experience and knowledge, is to create space that meets occupier needs, which in turn will help to maintain occupancy. We are continually looking at innovative ways to add value to our assets through refurbishment, higher value uses or the restructuring of leases.

### STABLE RECURRING INCOME

We aim to grow income through active asset management of the portfolio and capturing market rental uplifts. The benefits of having a diverse occupier base means that rental income from the property portfolio remains relatively stable and allows us to operate with a covered dividend policy and invest surplus cash flow back into the portfolio.

### DEPTH OF EXPERTISE

Alongside our experienced Board, the investment management team has on average more than 12 years' experience within the commercial property sector and comprises 12 permanent employees with six property professionals, three qualified accountants and three support staff. Our talented team is fully focused on delivering the Group's strategy.

### Enabling us to deliver long-term shareholder value

We believe long term shareholder value is achieved through having a portfolio strategy that provides appropriate sector and geographic allocation. This can be adapted over time, as market conditions dictate and further value is created through the acquisition, asset management and disposal process. Prudent use of gearing, which is managed throughout the property cycle, will enhance the income position and improve net asset value growth.






# OUR STRATEGY

The Company's objective is to provide investors with an attractive level of income, with the potential for capital growth.

This is achieved by creating a portfolio of assets with a high income bias. Assets are managed to maximise the potential for both income and, where appropriate, capital growth. This is achieved through, amongst other things, improving the quality of accommodation, extending income longevity and exploring the potential to create value through refurbishment, change of use or redevelopment.

In addition, we look to recycle capital by investing in opportunities that provide better risk adjusted returns. The ability to invest across the UK market and across sectors means that we can be opportunity led. Equally, understanding and meeting the needs of new and existing occupiers is paramount.

## OUR FIVE KEY STRATEGIC PRIORITIES

Strategic priority	Progress this year
 <b>Growth of net income</b> <p><b>We aim to grow net income over the long term through the active management of the property portfolio.</b></p> <p>We aim to add additional annual income from new lettings, lease renewals and re-gears. We also strive to reduce the portfolio voids by attracting new occupiers, and by investing in our assets to make them attractive to occupiers, which helps to generate rental growth.</p>	<p>■ Overall net income has grown by £5.6 million compared to 2015. We expect this to grow further as we benefit from a full year's income from recent acquisitions.</p>
 <b>Working with our occupiers</b> <p><b>We maintain regular communication with our occupiers.</b></p> <p>By doing this, we understand their needs and can work to meet their requirements in a timely manner. Our successful occupier focused initiatives include the 'Picton Promise' – eight commitments to quality and service that underpin every aspect of our occupier experience. We believe that these initiatives will lead to enhanced occupancy and retention rates.</p>	<p>■ Our occupancy has continued to improve and stands at 96%. This reflects the success of our occupier initiatives and is ahead of the MSCI IPD monthly index which was 91.4% at March 2016.</p>
 <b>Operational efficiency</b> <p><b>Picton is an internally managed investment company.</b></p> <p>The Investment Manager, Picton Capital Limited, is a wholly owned subsidiary company and has 12 permanent staff, as at 31 March 2016. We believe this efficient operating model allows Picton to benefit from economies of scale as it grows. We constantly review property operating costs and employ strategies to reduce costs where possible.</p>	<p>■ Our Ongoing Charges have fallen this year to 1.1%. Over the last three years the Ongoing Charges ratio has reduced by over 35%.</p>
 <b>Portfolio and asset management</b> <p><b>Active asset management is core to our approach and will continue to be implemented to enhance the value of our assets.</b></p> <p>In addition, we will seek to acquire new assets for the portfolio that offer the potential of income and value enhancement, whilst disposing of assets that have been identified as contributing less in terms of performance.</p>	<p>■ We have outperformed the MSCI IPD Quarterly Benchmark on both a total return and income return basis.</p>
 <b>Effective use of debt</b> <p><b>Over the long term we believe that effective use of gearing will increase returns to shareholders.</b></p> <p>The income return from the portfolio will be enhanced by the low, long-term fixed interest rates in place on our borrowings. At this stage of the property cycle, gearing is proving accretive to returns from the property portfolio. The Board reviews the level of gearing in place on a regular basis so that the Group can adapt to changing market conditions as necessary.</p>	<p>■ Gearing has again contributed positively to performance, our total return of 17.9% for the year is well ahead of the MSCI IPD Quarterly Benchmark. Our new revolving credit facilities allow us to manage our gearing throughout the property cycle.</p>

## OUR STRATEGY

### CASE STUDY: OFFICE

# PEMBROKE COURT CHATHAM



#### STRATEGY IN ACTION

-  PORTFOLIO AND ASSET MANAGEMENT
-  WORKING WITH OUR OCCUPIERS

## ACQUISITION AND VALUE CREATION

### THE OPPORTUNITY WE RECOGNISED

When we purchased 30 and 50 Pembroke Court in June 2015, we were confident from our acquisition due diligence that we could enhance value by extending the income profile. Whilst both properties were let to strong covenants, the average weighted lease length to earliest termination was only 2.9 years.

Our 'occupier focused' approach enabled us to engage with the principal occupiers immediately on purchase. This quickly resulted in us re-gearing the lease of 30 Pembroke Court, with Canterbury Christ Church University taking a new 13 year lease (no break) at a rent of £0.61 million per annum in return for eight months' rent-free.

At 50 Pembroke Court, we subsequently re-gear the two floors occupied by Vanquis Bank, securing a ten year term to the first break at an initial rent of £0.71 million per annum, with 2.5% per annum compound increases for the length of the lease. No incentive was given and the initial rent was 6% ahead of the estimated rental value.

Within seven months of acquisition, we had re-gear 80% of the income from this property increasing the average weighted lease length to earliest termination from 2.9 years to 9.5 years, and achieved a 15% increase in valuation.

### KEY PROPERTY DETAILS

<p>Increase in value</p> <p><b>15%</b></p>	<p>Number of occupiers</p> <p><b>3</b></p>	<p>Size</p> <p><b>86,300<sub>sq ft</sub></b></p>
<p>Annual rent</p> <p><b>£1.65<sub>m</sub></b></p>	<p>Year built</p> <p><b>2001</b></p>	<p>EPC Rating</p> <p><b>C-D</b></p>







## OUR STRATEGY

### CASE STUDY: OFFICE

# BOUNDARY HOUSE LONDON, EC3



#### STRATEGY IN ACTION



PORTFOLIO AND  
ASSET MANAGEMENT



GROWTH OF NET INCOME

## REPOSITIONING OF THE ASSET AND CAPTURING INCOME AND VALUE GROWTH

### THE OPPORTUNITY WE RECOGNISED

We wanted to continue to maximise value through active management on the back of strong occupational demand.

The rolling refurbishment programme continued and we updated the common parts including the installation of secondary glazing to some areas, which improved the EPC rating from E to D in line with our sustainability strategy.

A first floor suite was surrendered and re-let within five months on a five year lease at £88,000 per annum with six months' rent-free. The letting was 8% ahead of estimated rental value and 79% ahead of the previous passing rent. In a separate transaction, we renewed the lease of a ground floor suite, securing a five year lease, subject to break, at £80,000 per annum with three months' rent-free. The

renewal was 25% ahead of estimated rental value and 90% ahead of the previous passing rent.

After the year end, we surrendered a ground floor lease with the occupier paying a surrender premium equivalent to 75% of the outgoings to the lease end date. The suite has been re-let for £79,000 per annum without refurbishment, 107% ahead of the previous passing rent.

Also in the year we completed a Rights of Light settlement with the developer of an adjoining property. The settlement was £575,000 and provides us with reciprocal rights to redevelop Boundary House into perpetuity.

The building is attractive to small and medium sized businesses looking for good quality, well located space and on the back of this demand we have seen 24% rental growth in the year, with the lettings setting excellent evidence for the forthcoming rent reviews.

### KEY PROPERTY DETAILS

<p>Increase in value</p> <p><b>20%</b></p>	<p>Number of occupiers</p> <p><b>15</b></p>	<p>Size</p> <p><b>45,000<sub>sq ft</sub></b></p>
<p>Annual Rent</p> <p><b>£1.14<sub>m</sub></b></p>	<p>Year built</p> <p><b>1955</b></p>	<p>EPC Rating</p> <p><b>D</b></p>





## OUR STRATEGY

### CASE STUDY: RETAIL AND LEISURE

# QUEENS ROAD SHEFFIELD



## ACQUISITION – MODERN SINGLE LET RETAIL WAREHOUSE

### THE OPPORTUNITY WE RECOGNISED

This B&Q megastore with 460 parking spaces is located in an established retail warehouse location, close to the city centre. Other local occupiers include Asda, Magnet and Evans Cycles.

The lease to B&Q Plc has a further 11.8 years unexpired and generates a rent of £1.24 million per annum, which equates to a low overall rental of approximately £12.00 per sq ft, with the next rent review in December 2017.

The property provides Picton with secure income with good prospects for growth from a modern prominent city centre property, with the added flexibility that, subject to planning, we can divide the property in the future if required and potentially put a pod unit on the car park.

In line with our strategy, the property increases the average lot size in the portfolio, is let to a strong covenant and was purchased off a low capital value of £172 per sq ft. We believe a net initial yield of 6.6% is attractive, recognising the income security and low rental level.

### STRATEGY IN ACTION



OPERATIONAL EFFICIENCY



GROWTH OF NET INCOME

### KEY PROPERTY DETAILS

<b>Purchase Date</b> <b>August</b> <b>2015</b>	<b>Number of occupiers</b> <b>1</b>	<b>Size</b> <b>103,000</b> sq ft
<b>Annual Rent</b> <b>£1.24</b> <sub>m</sub>	<b>Year built</b> <b>2002</b>	<b>EPC Rating</b> <b>C</b>

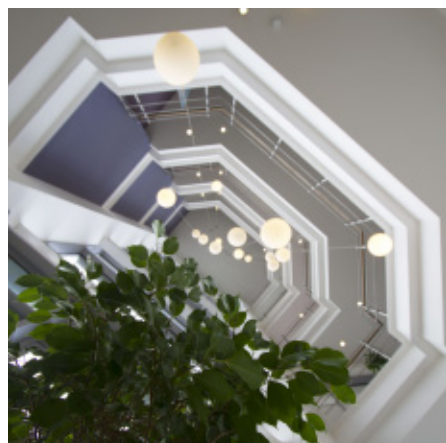




# OUR STRATEGY

## CASE STUDY: OFFICE

# METRO GREATER MANCHESTER



### STRATEGY IN ACTION



GROWTH OF NET INCOME



EFFECTIVE USE OF DEBT

## ACQUISITION – MODERN FULLY LET REGIONAL OFFICE BUILDING

### THE OPPORTUNITY WE RECOGNISED

Metro is located within the Salford Quays / Media City business area, approximately two miles to the west of Manchester city centre. The Exchange Quay Metrolink station is next to the building with a journey time of 18 minutes to the city centre.

Metro was developed in 2008 and provides 71,000 sq ft of BREEAM 'Excellent' office space over four upper floors. Secure parking for 228 cars is situated across two levels beneath the building.

At the point of purchase there was little required in terms of asset management, as the property was fully let to four tenants producing an income of £1.15 million per annum, which will increase to £1.53 million per annum in April 2017. The average lease length is 8.3 years to expiry (5.6 years to break) and the building is let off a low average rent reflecting £21.50 per sq ft, including the car parking spaces.

The pricing reflects an attractive yield, relative to the quality of the real estate, of 6.2% net initial yield, rising to 8.3% in April 2017 and a capital value of under £250 per sq ft, which is close to the cost of construction. We see future upside in the Greater Manchester area, as the 'Northern Powerhouse' continues to gain momentum.

### KEY PROPERTY DETAILS

<b>Purchase Date</b> <b>February</b> <b>2016</b>	<b>Number of occupiers</b> <b>4</b>	<b>Size</b> <b>71,000</b> sq ft
<b>Annual Rent</b> <b>£1.15<sub>m</sub></b>	<b>Year built</b> <b>2008</b>	<b>EPC Rating</b> <b>C</b>





# CHIEF EXECUTIVE'S REVIEW

"We strive to have a positive impact in the markets in which we operate and I genuinely believe despite wider uncertainties caused by the EU referendum vote, we are well positioned to develop the business."

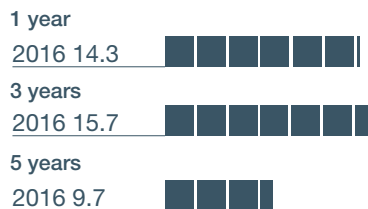


Total return  
**17.9%**

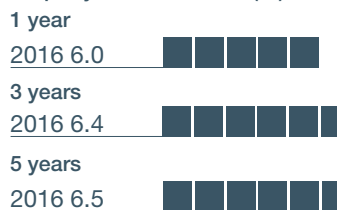
Total property return  
**14.3%**

Earnings per share  
**12p**

## Total Property Return (%)



## Property Income Return (%)



Over the past year, Picton has continued to deliver against its five strategic priorities and this is set out below.

Our overall performance was again strong for the year, with a total return of 17.9%. The net asset value increased by 12.7%, our EPRA earnings per share were up by 8.3% and our Ongoing Charges ratio fell again, to 1.1%. The return from the property portfolio was 14.3%, ahead of the MSCI IPD Quarterly Benchmark for the year. The portfolio has been reshaped following a combination of non-core asset disposals and new acquisitions. This has increased the average lot size by some 70% over the last four years.

As the Chairman has already mentioned in his statement, Picton has won a number of awards this year or been recognised for the results it has achieved. This is encouraging and reflects the efforts of our relatively small, but highly dedicated, team.

We are continuing to develop our 'occupier focused, opportunity led' approach, not only internally, but also with our service providers. I believe this has helped to deliver the achievements set out within the Investment Manager's Report.

## GROWTH OF NET INCOME

A close relationship with our occupiers, advisers and the markets in which we are invested is key to growing net income.

Net property income has risen by more than £5 million this year primarily reflecting the larger portfolio and improved occupancy, but also as a result of our ability to capture emergent rental growth.

Rental growth is no longer confined to the core areas within central London, and whilst this will not have an immediate impact on income until it is captured at lease expiry or at the next rent review, in the interim it is having a positive effect on valuations.



## WORKING WITH OUR OCCUPIERS

Within our portfolio, occupancy continues to be above that recorded by the MSCI IPD Index. We have had considerable success increasing occupancy to 96% from 95% 12 months ago.

Key to this success has been our ability to attract new occupiers while retaining existing ones through our occupier focused approach. We have, over the course of the year, worked with numerous occupiers to help them 'right size' their businesses and I consider that this personal approach and attention to detail is key as we continue to manage our assets effectively and improve their attractiveness to occupiers.

We are intending to communicate more regularly with our occupiers and have during the year created a specific occupier focused section on our website.

We continue to work with CBRE, our day to day Property Manager, at improving service delivery and we have a number of further initiatives that we intend to roll out during the course of the next 12 months.

## OPERATIONAL EFFICIENCY

As the Group's net assets have risen again this year, by over 12% to £417 million, the structure of our team means we have been able to absorb this growth while reducing the Company's Ongoing Charges ratio, a measure of how efficiently the business is run, by 8% from 1.2% to 1.1%.

## PORTFOLIO AND ASSET MANAGEMENT

Following the progress made last year, our property performance continues to be ahead of the market and our 'hands-on' approach has contributed to this success. We have made selective disposals over the period, crystallised historic gains and captured the value created from our asset management activity. There has been a lot of portfolio level activity this year and a comprehensive update by sector is provided within the Investment Manager's Report.

## EFFECTIVE USE OF DEBT

The use of debt has further enhanced returns this year, but our intention to continue to bring the level of gearing down, and to be disciplined about the risk/return profile when using debt, remains paramount.

As we have seen valuation gains across the portfolio during the year, we have also experienced a positive effect from the level of gearing, with a property return of 14% giving rise to a total return of just under 18% for the year. We continue to be mindful of the need to manage gearing effectively and to reduce it in a structured and disciplined way as we progress through the cycle.

Our current level of gearing, a reduction from 48% two years ago, remains appropriate under the circumstances. However, as highlighted a year ago, we expect returns from UK commercial property to be lower than in the past couple of years and hence the risks associated with gearing are elevated. With that in mind our aim is to reduce gearing further, and our expectation is that future asset sales will help us achieve this. We believe the correct mid-cycle gearing for Picton is around 35%.

As we look forward, our new revolving credit facilities will provide us with a greater level of operational flexibility. Once the zero dividend preference shares have been repaid later this year we expect our finance costs to reduce, which will also have a positive effect on income profit and dividend cover.

## OUTLOOK

Without wishing to be complacent, I believe that with each successive year Picton continues to get better and stronger. We are building a sustainable and profitable business and are making good progress on many fronts, which is demonstrated by the strength of our results. For us, it is not always about extracting the last penny from every transaction, but also about building relationships with our occupiers that will add value over the long term.

Although we continue to be able to access opportunistic acquisitions, we have a team that has proven that it can create value through ownership, rather than simply acting as asset aggregators, with an 'assets under management' mentality.

We strive to have a positive impact in the markets in which we operate and I genuinely believe despite wider uncertainties caused by the EU referendum vote, we are well positioned to develop the business.

### Michael Morris

Chief Executive, Picton Capital Limited  
27 June 2016

# KEY PERFORMANCE INDICATORS


The following key performance indicators are considered to be the most appropriate for measuring how successful the business has been in meeting its strategic objectives.

The key performance indicators are also used in setting the variable element of remuneration for the Picton Capital team. The Remuneration Committee considers the key performance indicators for the year in determining annual bonus awards, as is set out in the Remuneration Report.

 Read more about our **Remuneration Report** on page 66


 Read more about our **Strategy** on page 11

Our 5 strategic priorities

 Growth of net income

 Working with our occupiers

 Operational efficiency

 Portfolio and asset management

 Effective use of debt

## LINKING OUR PERFORMANCE TO EPRA BEST PRACTICES RECOMMENDATIONS

We have a range of key performance indicators that we use to measure the performance and success of the business. We consider that industry standard measures, such as those calculated by MSCI IPD, are appropriate to use alongside certain EPRA measures and others that are relevant to our business.

In this regard we consider that the EPRA net asset value per share, earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

## EPRA Net Asset Value per Share (pence)

2016	77	
2015	69	
2014	56	
2013	49	

### Why we use this indicator

The net asset value per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business.

### Our Performance in 2016

The EPRA NAV per share has continued to grow strongly throughout the year.

Strategic link  

## EPRA Vacancy Rate (%)

2016	3.9	
2015	4.8	
2014	8.7	
2013	12.4	

### Why we use this indicator

The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period.

### Our Performance in 2016

The EPRA vacancy rate has continued to fall as the asset management team have focused on letting vacant space in improving market conditions. It is at its lowest level since June 2007.

Strategic link   

## EPRA Earnings per Share (pence)

2016	3.7	
2015	3.4	
2014	3.7	
2013	4.3	

### Why we use this indicator

The earnings per share, calculated in accordance with EPRA, measures the operational profit generated by the business that is attributable to our shareholders.

### Our Performance in 2016

The increased EPRA earnings per share is partly due to the deployment of funds into new property acquisitions, and also the improving occupancy.

Strategic link  

## Property Income Return (%)

2016 6.0					
2015 6.1					
2014 7.1					
2013 7.0					

### Why we use this indicator

The Property Income Return, as calculated by MSCI IPD, is the ungeared income return of the portfolio.

## Our Performance in 2016

With our portfolio biased towards income generation, this is an important indicator. The return for the year of 6.0% was ahead of the MSCI IPD Quarterly Benchmark of 4.7%, and we have also outperformed on a three, five and ten year basis.

Strategic link   

### Ongoing Charges (%)

2016	1.1	<div><div></div><div></div><div></div><div></div><div></div></div>
2015	1.2	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>
2014	1.7	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>
2013	1.7	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>

### Why we use this indicator

The Ongoing Charges ratio represents the annual running costs of the Group. It is the proportion of recurring operating costs (management and other operating expenses) to the average net asset value. The above figures exclude property operating costs, as the Board considers that these are not recurring in nature, nor are they a measure of how efficiently the business is run.

## Our Performance in 2016

The Supplementary Disclosures section provides further analysis of the Ongoing Charges ratio.

The Ongoing Charges ratio has fallen this year, as the economies of scale arising from the growth in our net assets have flowed into the results. Operating expenses, principally the management costs of Picton Capital Limited, have not grown at the same rate as the increase in assets, thus enhancing shareholder returns.

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# INVESTMENT MANAGER'S REPORT

“Looking ahead we will continue to be ‘opportunity led and occupier focused’ and look forward to unlocking further active management initiatives.”

Number of assets

**58**

Average lot size

**£11.3m**

Estimated rental value

**£47.6m**



The asset management team have had another successful year.

We have seen a strong occupational market, which has assisted us in completing 35 lettings, pushing up our occupancy level to 96%.

Numerous active management transactions have been undertaken and these have assisted us in again outperforming the MSCI IPD Quarterly Benchmark, on a total return basis, which we have done for the last one, three and ten years.

There has been significant activity in terms of reshaping the portfolio over the year. We have acquired three modern office buildings and a city centre retail warehouse asset, as well as adding a further building at our Angel Gate holding, investing in total £73 million after costs. All were acquired on favourable terms and offer potential for future income and capital growth, some of which has already occurred as a result of our active management. In addition, we have disposed of three non-core assets for total proceeds of £9.4 million after costs, following the completion of asset management initiatives.

Our portfolio now comprises 58 assets, with around 400 occupiers, it is valued at £655 million, and the average lot size has increased to £11.3 million. As a result of the new acquisitions, and rental growth in the portfolio, the passing rent has risen to £40.4 million, up from £34.6 million a year ago, with an estimated rental value of £47.6 million.

We have set out in the following sections the principal activity in each of the sectors in which we are invested. Looking ahead we will continue to be ‘opportunity led and occupier focused’ and look forward to unlocking further active management initiatives.

**Jay Cable**

Director and Head of Asset Management,  
Picton Capital Limited

**Fraser D’Arcy**

Investment Director,  
Picton Capital Limited  
27 June 2016

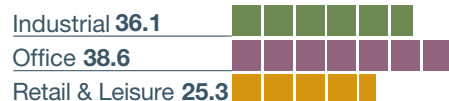




Pictured:  
62/68 Bridge Street, Peterborough

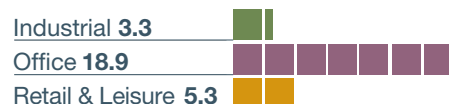
# INVESTMENT MANAGER'S REPORT

## Sector split (%)



## Geographic split (%)

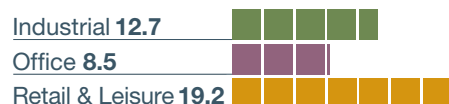
### Central and Greater London 27.5%



### South East 32.1%



### Rest of UK 40.4%



## PORTFOLIO OVERVIEW

As at 31 March 2016, the portfolio generated a net initial yield of 5.6% after void costs, which in rental terms reflects a current passing rent of £40.4 million per annum.

The portfolio's total return for the year to 31 March 2016 was 14.3%, which equates to a 300 basis points outperformance relative to the MSCI IPD Quarterly Benchmark. The Picton portfolio's overweight exposure to City offices, South East offices and South East industrials, along with the effect of active management initiatives, has helped the portfolio.

The portfolio's capital value for the year grew by 9%. Regional office values rose by 15%, with London offices growing by 19%. Industrial values grew by 9% and retail and leisure by 1%.

Overall, like-for-like growth in the portfolio's estimated rental values was 5% during the year to March 2016. Estimated rental values in the office sector grew by 10% over the year, predominantly driven by growth in London of 20%. Industrial estimated rental values grew by 6% with retail and leisure declining by 1%.

We have had a good year for lettings, generating an additional £2.3 million of income after incentives, the overall rent being 3.8% ahead of the March 2015 estimated rental values. As predicted last year we were able to increase the occupancy rate which currently stands at 96%. Our aim is to continue to maintain occupancy at a high level across the portfolio.

The estimated rental value (ERV) of the void portfolio is £1.9 million per annum and 50% of our void property has only been vacant for under a year.

Income retained through lease renewals and re-gears totalled £2.9 million per annum after incentives, 2% ahead of the March 2015 estimated rental values.

We have continued our strategy of reshaping the portfolio. As a result of three disposals and five acquisitions the number of properties in the portfolio is 58 and the average lot size has increased by 19% to £11.3 million.

## OUTLOOK FOR THE COMING YEAR

The occupational market remains robust and we expect to maintain our high occupancy level, whilst capturing rental growth as supply remains limited. Whilst we have a shorter than average lease expiry profile, we see this as a positive in a rising market. On lettings and renewals, we are able to secure longer leases locking in higher rents and creating value.

A number of our current voids are under offer and over the next 12 months our two largest lease events are at 50 Farringdon Road in London, where we are seeing strong demand, and at 180 West George Street in Glasgow, where, as predicted on purchase, we have two floors coming back in November. Our refurbishment timetable at this property will mean the building is ready to let in early 2017, when we believe there will be little competing space in the market.

Market forecasts suggest the Rest of UK offices and industrial sub-sectors are likely to be better performers on an annualised basis between 2016 and 2020. Half of our office portfolio is located outside of London, while our industrial exposure is also higher than the MSCI IPD Quarterly Benchmark, at 36% compared to 19%.

Our retail and leisure assets account for 25.3% of the portfolio, compared to the MSCI IPD Quarterly Benchmark of 50.6%. The London retail sub-sector continues to be the top performer across all asset classes and our Stanford House asset in Covent Garden accounts for 21% of our total retail and leisure exposure. The retail asset rents have mostly been rebased and we see tentative signs of rental growth, predominantly in our retail warehouse assets, coming through in the next year.

Income has become a more significant component of total returns, accounting for 44% at the end of March 2016, compared to 31% in March 2015. Capital growth as a percentage of total returns fell to 53% in March 2016 from 65% in March 2015.

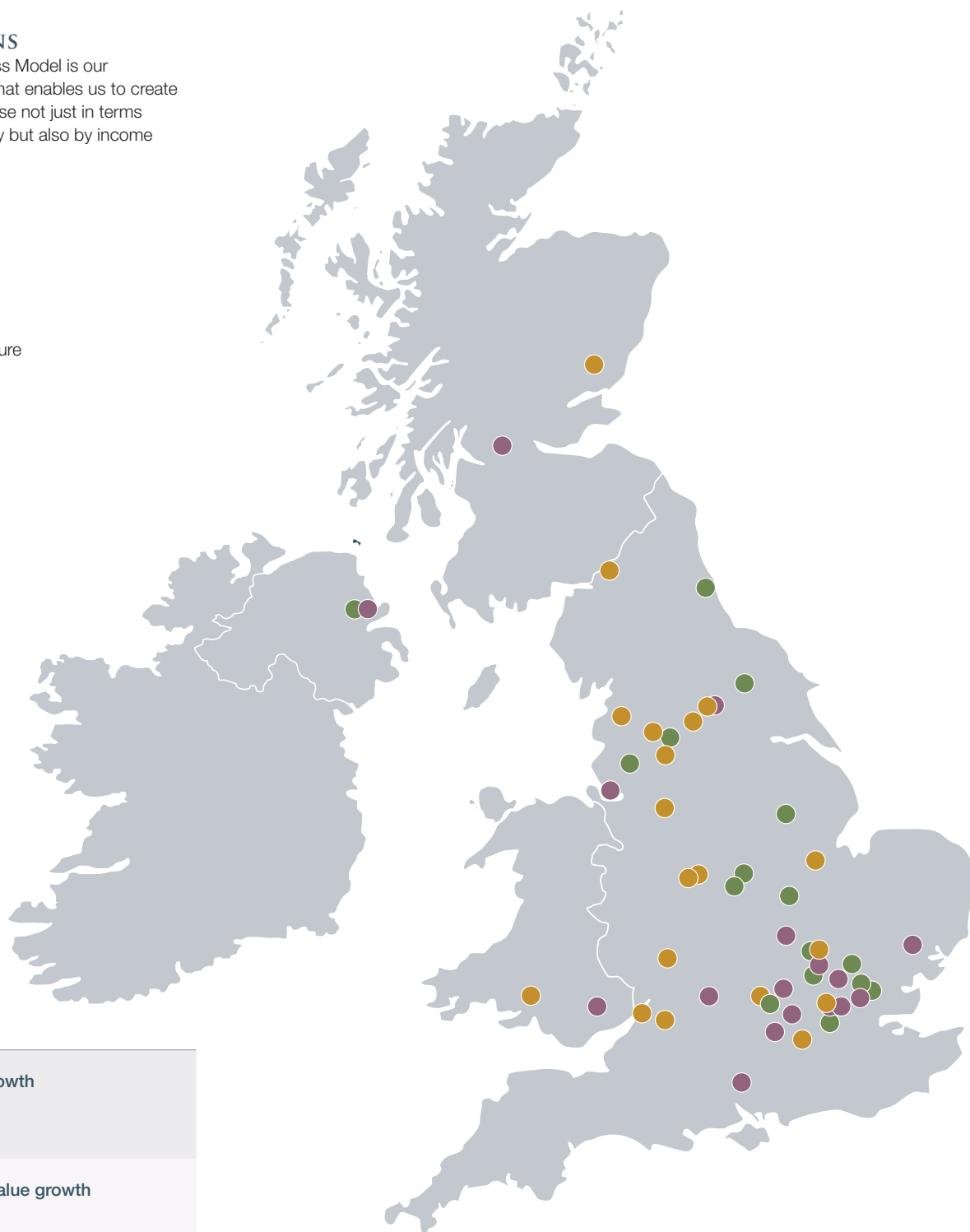
The focus is on continuing the strategy of de-risking income through active management and capturing rental growth. With high occupancy levels and good demand, we believe we are in a strong position to capitalise on this throughout the portfolio.

## OUR LOCATIONS

Integral to our Business Model is our investment objective that enables us to create a portfolio that is diverse not just in terms of sector or geography but also by income concentration.

### Key to map:

- Industrial
- Office
- Retail and Leisure



Portfolio rental growth

**5.2%**

Portfolio capital value growth

**9.2%**

Occupancy level

**96%**



# INVESTMENT MANAGER'S REPORT

## LONGEVITY OF INCOME

As at 31 March 2016, based as a percentage of contracted rent, the average length of the leases to the first termination was 5.9 years. This is summarised as follows:

Up to 5 years	<b>62.0%</b>
5 to 10 years	<b>24.0%</b>
10 to 15 years	<b>7.4%</b>
15 to 25 years	<b>5.4%</b>
25 years and over	<b>1.2%</b>

## RETENTION RATES

Total income at risk in the portfolio fell from £4.3 million in the year to March 2015 to £2.4 million in the year to March 2016, a 43% reduction. The portfolio retained 54% of total income at risk in the year to March 2016, this comprised of 52% retention for those on lease expiry and 68% after break options.

## INCOME CONCENTRATION

There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the MSCI IPD Quarterly Benchmark by contracted rent, as at 31 March 2016.

Industry Sector	Picton (%)	Benchmark (%)
Services	27.0	20.6
Retail Trade	23.7	35.9
Financial Services	13.6	15.5
Manufacturing	13.5	8.1
Transportation, Communications	11.2	5.8
Public Administration	3.8	3.6
Wholesale Trade	3.4	4.2
Construction	1.7	0.7
Mining	0.0	0.6
Undetermined/ ineligible/unmatched	2.1	5.0
	100	100

Source: MSCI IPD IRIS Report March 2016

## TOP TEN OCCUPIERS

The top ten occupiers, based as a percentage of contracted rent, as at 31 March 2016, are summarised as follows:

Occupier	Contracted Rent (£000)	%
1 Belkin Limited	1,690	4.0
2 DHL Supply Chain Limited	1,560	3.7
3 B&Q Plc	1,243	2.9
4 Snorkel Europe Limited	1,008	2.4
5 The Random House Group Limited	1,000	2.4
6 Cadence Design Systems Limited	972	2.3
7 Trainline.com Limited	835	2.0
8 Edward Stanford Limited	785	1.8
9 Portal Chatham LLP	707	1.7
10 XMA Limited	652	1.5
Total	10,452	24.7

## TOP TEN ASSETS

The largest assets in the portfolio as at 31 March 2016, ranked by capital value, represent just over 46% of the total portfolio valuation and are detailed below.

### 01 PARKBURY INDUSTRIAL ESTATE, RADLETT

Acquisition date	03/2014
Property type	Industrial
Tenure	Freehold
Approx. area sq ft	336,700
Occupancy rate	97%



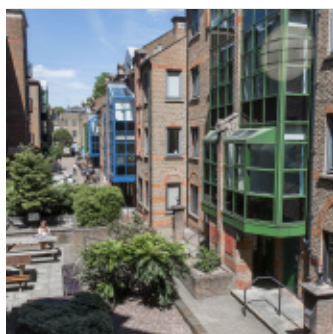
### 02 RIVER WAY INDUSTRIAL ESTATE, HARLOW

Acquisition date	12/2006
Property type	Industrial
Tenure	Freehold
Approx. area sq ft	455,000
Occupancy rate	88%



### 03 ANGEL GATE, CITY ROAD, LONDON EC1

Acquisition date	10/2005
Property type	Office
Tenure	Freehold
Approx. area sq ft	64,500
Occupancy rate	93%



### 04 STANFORD HOUSE, LONG ACRE, LONDON WC2

Acquisition date	05/2010
Property type	Retail
Tenure	Freehold
Approx. area sq ft	19,700
Occupancy rate	100%

### 05 BOUNDARY HOUSE, JEWRY STREET, LONDON EC3

Acquisition date	05/2006
Property type	Office
Tenure	Freehold
Approx. area sq ft	45,000
Occupancy rate	100%

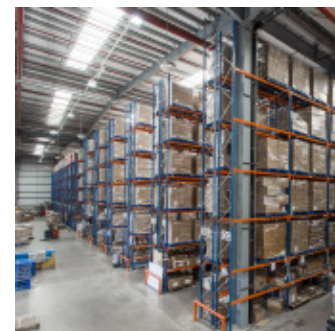
### 06 50 FARRINGDON ROAD, LONDON EC1

Acquisition date	10/2005
Property type	Office
Tenure	Leasehold
Approx. area sq ft	32,000
Occupancy rate	100%



### 07 BELKIN UNIT, SHIPTON WAY, RUSHDEN

Acquisition date	07/2014
Property type	Industrial
Tenure	Leasehold
Approx. area sq ft	312,850
Occupancy rate	100%



### 08 PEMBROKE COURT, CHATHAM

Acquisition date	06/2015
Property type	Office
Tenure	Leasehold
Approx. area sq ft	86,300
Occupancy rate	100%

### 09 PHASE II, PARC Tawe RETAIL PARK, SWANSEA

Acquisition date	10/2005
Property type	Retail Warehouse
Tenure	Leasehold
Approx. area sq ft	116,700
Occupancy rate	100%



### 10 QUEENS ROAD, SHEFFIELD

Acquisition date	08/2015
Property type	Retail Warehouse
Tenure	Freehold
Approx. area sq ft	103,000
Occupancy rate	100%

# INVESTMENT MANAGER'S REPORT

## CASE STUDY: INDUSTRIAL

# RIVER WAY INDUSTRIAL ESTATE HARLOW



### STRATEGY IN ACTION



PORTFOLIO AND  
ASSET MANAGEMENT

## TAKING ADVANTAGE OF SHORT TERM INCOME IN A RISING MARKET

### THE OPPORTUNITY WE RECOGNISED

We are looking to turn the short income profile at the property to our advantage, by securing new occupiers and growing rents at lease events. At Fleet House (the largest unit on the estate), DHL committed to a new ten year lease, subject to break, at an initial rent of £0.62 million per annum. Three months rent-free was granted and the initial rent is in line with ERV.

The rent review at unit A, dated February 2015, was settled at £170,000 per annum, a 16% uplift on the previous passing rent and 6% ahead of ERV.

In smaller transactions, we have renewed the lease at unit F2 for a further five years at a rent of £68,000 per annum, 3.5% ahead of ERV and with a four month rent-free period. The September 2016 break option at Unit F3, where the passing rent is £58,000 per annum, was

removed in return for a capital contribution to a power upgrade equivalent to three months rent-free. The September 2016 rent review remains open and we expect an uplift.

Over the coming year we have three units with an ERV of £0.58 million per annum coming back due to tenant break options. Due to the strong occupier demand for this estate, two of the units are already under offer with the new leases expected to commence the day after the break date.

Currently we are on-site refurbishing the only vacant unit, which is our largest industrial void at 50,000 sq ft with an ERV of £350,000 per annum. The works will complete in the summer and we currently have strong interest from an occupier to take a ten year lease.

We continue to see strong interest at all size levels on this estate and are in preliminary discussions with occupiers ahead of lease events in 2017.

### KEY PROPERTY DETAILS

<p>Increase in value</p> <p><b>9%</b></p>	<p>Number of occupiers</p> <p><b>9</b></p>	<p>Size</p> <p><b>455,000</b>sq ft</p>
<p>Annual Rent</p> <p><b>£2.4<sub>m</sub></b></p>	<p>Year built</p> <p><b>1970s</b></p>	<p>EPC Rating</p> <p><b>C-E</b></p>





# INVESTMENT MANAGER'S REPORT

## INDUSTRIAL PORTFOLIO REVIEW

Occupancy in the industrial portfolio is 94.2%, a slight decrease on last year, and in total we have nine units to let. Our largest void is the 50,000 sq ft unit D in Harlow, which is currently being refurbished and will be ready to let in the summer. We are seeing strong demand for this estate, demonstrated by the fact that we have three units coming back later this year, two of which are currently under offer before the existing leases have expired.

Our second largest industrial void is unit O at Lyon Business Park, Barking, which was surrendered in an active management transaction in January 2015. The unit was under offer to a good covenant last summer but due to the prospective tenant being unable to secure planning, the letting was aborted at a late stage. The unit is now under offer at a rent ahead of that agreed last year.

Activity across the industrial portfolio included the letting of eight units at a combined rent of £0.52 million per annum, the renewal of seven leases with a combined rent of £1.2 million per annum and the surrender of two leases to facilitate active management.

We have seen rental growth of 6% across the industrial portfolio and are experiencing demand across all of our estates.

### HIGHLIGHTS OF THE YEAR

At the Group's largest holding at Parkbury, Radlett, we surrendered a 22,000 sq ft unit and the next month re-let the space (without refurbishment) to an existing occupier on a ten year lease (no break) for £220,000 per annum with six months rent-free. The letting was 20% ahead of the previous passing rent and ERV. The transaction allowed our occupier to 'right size' their business by staying on the estate in line with our Picton occupier promise. Three rent reviews were settled increasing the annual rent roll by £62,000, 6% ahead of ERV. One lease was renewed for a further five years, increasing the previous passing rent by 5% to £104,000 per annum, which was 3% ahead of ERV. There is currently one vacant unit out of 24, which is being refurbished.

In Harlow, DHL committed to a new ten year lease at the largest unit on the estate, subject to break, at an initial rent of £0.62 million per annum. Three months rent-free was granted and the initial rent is in line with ERV. In smaller transactions we have renewed the lease at unit F2 for a further five years at a rent of £68,000 per annum, 3.5% ahead of ERV and with a four month rent-free period. The September 2016 break option at Unit F3, where the passing rent is £58,000 per annum, was removed in return for a capital contribution to a power upgrade equivalent to three months rent-free. The September 2016 rent review remains open and we expect an uplift. The rent review at unit A, dated February 2015, was settled at £170,000 per annum, a 16% uplift on the previous passing rent and 6% ahead of ERV.

At our multi-let industrial estate, Datapoint in Bromley-by-Bow, we completed two rent reviews securing a combined uplift of £68,000 per annum. The overall uplift was 25% ahead of the previous passing rent and 21% ahead of ERV. At nearby Lyon Business Park in Barking two units have been let for a combined £75,000 per annum, 13% ahead of ERV. We have two units available, both of which are refurbished and under offer.

In Epsom, at Nonsuch Industrial Estate, assisting another occupier to 'right size', we surrendered a lease and subsequently re-let the unit for a ten-year term, without break, at a rent of £37,000 per annum with no incentive. The new rent equates to £16 per sq ft, which is 6% ahead of ERV and sets a new tone for the estate. A further lease was renewed for a further ten years without break, increasing the previous passing rent by 29% to £40,000 per annum, which was 14% ahead of ERV. Two rent reviews were settled increasing the annual rent roll by £17,000, 13% ahead of ERV. We have one remaining unit to let.

Following completion of the refurbishment of three units at Dencora Way in Luton, we have let them all for a combined £173,000 per annum, 5% ahead of ERV. In another transaction on the estate, we removed a tenant break clause securing £54,000 per annum for another five years, at a level 11% ahead of the current ERV. A rent review was also settled increasing the annual rent roll by £16,000, 10% ahead of ERV.

At Wokingham we renewed the lease of the second largest unit on the estate, with the occupier taking a ten year lease (subject to break) at £228,000 per annum rising to £255,000 in year three with three months rent-free. The initial rent is 60% ahead of ERV and sets great evidence on the estate. A rent review was settled increasing the annual rent roll and was 28% ahead of ERV. We currently have two small units to let, one of which is under offer.

### SECTOR OUTLOOK

The de-risking of income streams will continue and strong occupational demand means we can negotiate longer leases on renewal with little or no incentive as can be seen from the transactions described above. Looking forward, we expect to maintain the high occupancy rate and continue to capture the rental growth coming through on lettings and lease events on the back of the demand and reducing supply.

## PORTFOLIO KEY METRICS

	2016	2015
Value	£236.6 million	£217.7 million
Internal Area	2,745,200 sq ft	2,736,500 sq ft
Annual Rental Income	£14.4 million	£14.2 million
Estimated Rental Value	£16.8 million	£15.9 million
Occupancy	94.2%	96.5%
Number of Assets	18	18

Property	Area (sq ft)	Freehold/Leasehold
Units A–G2, River Way Industrial Estate, Harlow, Essex	455,000	F
Parkbury Industrial Estate, Radlett, Herts.	336,700	F
Grantham Book Services, Trent Road, Grantham, Lincs.	336,100	L
Belkin Unit, 3 Shipton Way, Rushden, Northants.	312,850	F
Vigo 250, Birtley Road, Washington, Tyne and Wear	246,800	F
Unit 3220, Magna Park, Lutterworth, Leics.	160,900	L
Lawson Mardon Buildings, Kettlestring Lane, York	157,800	F
Units 1–13 Dencora Way, Sundon Park, Luton, Beds.	127,500	L
Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire	101,800	L
The Business Centre, Molly Millars Lane, Wokingham, Berks.	100,500	F
Lyon Business Park, Barking, Essex	98,000	F
Easter Court, Gemini Park, Warrington	81,500	F
Abbey Business Park, Mill Road, Newtownabbey, Belfast	61,700	F
Datapoint Business Centre, Cody Road, London E16	54,800	L
Nonsuch Industrial Estate, 1–25 Kiln Lane, Epsom, Surrey	41,700	L
Western Industrial Estate, Downmill Road, Bracknell, Berks.	41,500	F
Manchester Road/Drury Lane, Oldham, Lancs.	16,400	F
Magnet Trade Centre, Winnersh, Reading	13,700	F

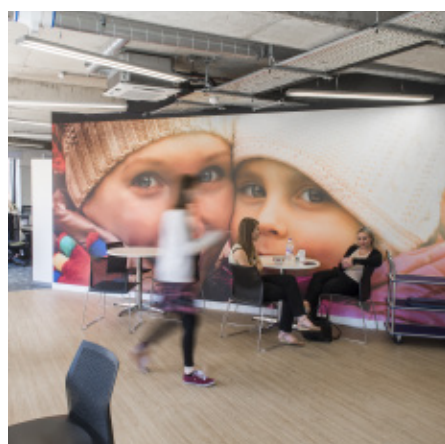
Largest occupiers	% of total portfolio
1 Belkin Limited	4.0
2 DHL Supply Chain Limited	3.7
3 Snorkel Europe Limited	2.4
4 The Random House Group Limited	2.4
5 XMA Limited	1.5



# INVESTMENT MANAGER'S REPORT

## CASE STUDY: OFFICE

# ANGEL GATE OFFICE VILLAGE LONDON, EC1



### STRATEGY IN ACTION



PORTFOLIO AND  
ASSET MANAGEMENT



WORKING WITH OUR  
OCCUPIERS

## CONTINUED REPOSITIONING OF THE ASSET AND CAPTURING RENTAL GROWTH

### THE OPPORTUNITY WE RECOGNISED

Over the past few years we have seen a dramatic turnaround at this property. We have repositioned the buildings by creating contemporary 'media' style space and have revitalised the common areas. As a result we have seen very strong occupational demand with units letting quickly and rents are now approaching £50 per sq ft – 150% ahead of where they were historically.

Since 2012, Picton has acquired three units as part of its ongoing strategy to consolidate its ownership at this core holding. In April, we acquired a fourth long leasehold interest at Unit 12 for a net consideration of £1.1 million, reflecting approximately £350 per sq ft. The unit comprises a 3,200 sq ft self contained office which was approximately 70% occupied.

The passing rent on purchase was £46,000 per annum, reflecting a low average rental of just under £20 per sq ft. The passing rent is currently £70,000 per annum and the value is £1.5 million with further active management angles.

Three units have been comprehensively refurbished during the year and were quickly re-let for a total rent of £446,000, 23% above ERV and double the previous passing rents.

The final vacant unit is currently under offer at a rent of £151,000 (in line with ERV) to a national café operator to be their new headquarters building when they take occupation in June.

We continue to utilise lease events and active management to grow and increase the longevity of the income stream.

### KEY PROPERTY DETAILS

<p>Increase in value</p> <p><b>31%</b></p>	<p>Number of occupiers</p> <p><b>30</b></p>	<p>Size</p> <p><b>64,500</b>sq ft</p>
<p>Annual Rent</p> <p><b>£1.7m</b></p>	<p>Year built</p> <p><b>1989</b></p>	<p>EPC Rating</p> <p><b>C-E</b></p>







# INVESTMENT MANAGER'S REPORT

## OFFICE PORTFOLIO REVIEW

Occupancy in the office portfolio is 95.8%, 2.7% ahead of last year. Our largest void is an office suite in St. Albans, which is under offer, and the second largest is at Longcross Court in Cardiff where we have four suites to let, one of which is under offer. The Cardiff market has been challenging and we are pleased to see renewed occupational activity at this asset.

We let 24 suites at a combined rent of £1.5 million per annum, in line with ERV, renewed five leases with a combined rent of £344,000 per annum, 11% ahead of ERV, and surrendered six leases to facilitate active management.

The most significant activity included the acquisition of three modern office buildings for a combined price of £51 million, which are currently valued at £54 million. This growth in capital value is attributable to the early active management at Chatham and Glasgow, which is highlighted below.

We have seen total rental growth of 9.1% across the office portfolio.

### HIGHLIGHTS OF THE YEAR

Two office buildings in Chatham, Kent were acquired for £19.05 million in June 2015, reflecting a net initial yield of 8.62%. 30 and 50 Pembroke Court comprise two attractive and well specified modern buildings of 35,000 sq ft and 51,000 sq ft respectively. On purchase, the average weighted lease length to the earliest termination was 2.9 years. Since purchase we have completed a lease regear at one of the buildings, extending the income of £0.6 million per annum (subject to review in 2018) by a further ten years to 2028, in return for a short rent-free period. Following this, we also regear another occupier's lease, securing a ten year term at an initial rent of £0.71 million, with 2.5% per annum compound increases for the length of the lease.

We acquired a modern office building in Glasgow for £14.25 million in August, reflecting a net initial yield of 7.8%. 180 West George Street was constructed in 2000 and provides 52,000 sq ft of office accommodation over basement, ground and six upper floors and is located on a prime street in the heart of Glasgow's central business district. It is fully let and produces a net annual rental income of £1.18 million, equivalent to an average rent of under £23 per sq ft. Occupiers include TSB Bank, Standard Life and Michael Page and the weighted average unexpired lease term is 1.7 years. We have agreed to regear the lease of a floor, setting new evidence at £26 per sq ft, which is in line with our assumptions on purchase. Space is coming back at this property in November, as predicted on purchase, and the building is going to be fully refurbished in order to launch a Grade A product in early 2017, which

we believe will be good timing due to a lack of competing space.

Metro, Trafford Road, Salford Quays, was acquired in February. The building is approximately two miles west of Manchester city centre and close to the BBC's home at Media City. The property was acquired for £17.6 million and is fully let to four tenants producing £1.15 million per annum, reflecting a net initial yield of 6.2%, rising to 8.3% in April 2017, with an average lease length of 8.3 years to expiry (5.6 years to break). It is let off a low average rent of £21.50 per sq ft, including the car parking spaces.

Continuing our ongoing consolidation strategy at Angel Gate, London EC1, the long leasehold interest at Unit 12 was acquired for £1.1 million, reflecting approximately £350 per sq ft. The unit comprises a 3,200 sq ft self-contained office which was approximately 70% occupied.

Also at Angel Gate, we have continued our rolling refurbishment programme which has resulted in four lettings adding £466,000 per annum, 23% ahead of ERV. We have regearred a lease, securing a minimum five-year term on an unrefurbished property at £132,000 per annum, which is 9% ahead of ERV and 62% ahead of the previous passing rent. We continue to see strong demand for this scheme and have one vacant building to let where the refurbishment has just completed; it is under offer.

In terms of disposals, the sale of non-income producing land at Westlea in Swindon was completed during the year, as the final conditions following planning consent were satisfied, enabling a 15,000 sq ft foodstore and up to 70 residential units on the site. The 1.6 acre retail element of the site was sold to Aldi for £1.65 million and the remaining 4.4 acres were sold to a national housebuilder for £3.12 million.

The sale of College Place, Southampton was completed for £1.5 million. The sale of this mixed use property follows the leasing of the ground floor unit at a rent of £50,000 per annum, 39% ahead of the preceding ERV. The sale price was 11% ahead of the preceding valuation.

In St. Albans we surrendered an office suite where the occupier was paying £173,000 per annum (£24.50 per sq ft). The floor is being refurbished and we have entered into an Agreement for Lease on half the space at a rent of £93,000 per annum (£28.50 per sq ft) and have strong interest in the rest of the space. During the year we also surrendered an occupier's lease with a year to break and re-let the suite for a term of five years at £44,000 per annum, 10% ahead of both ERV and the previous passing rent.

In Fleet, the leasing transaction of 33,000 sq ft completed to a serviced office occupier, following refurbishment works undertaken by Picton, at a stepped rent rising to £400,000 per annum, plus a top up reflecting occupancy within the building. Due to the stepped rent incentive, the letting was 42% below ERV, taking the average of the rent over the first five years of the lease; however, a minimal rent free period was granted.

At Building 100, Colchester Business Park, we renewed the lease for a further ten years, subject to break, at a rent of £200,000 per annum with three months rent-free. The rent is 19% ahead of ERV. There are currently three vacant offices available, one of which came back at the end of March and the other two are under offer.

Elsewhere we are pleased to confirm the following properties are now fully let:

- Citylink, Croydon where an occupier took a seven year lease, subject to break, at £104,000 per annum (10% ahead of ERV)
- 401 Grafton Gate, Milton Keynes where we let 6,500 sq ft on a ten year lease, subject to break, at £114,000 per annum (6% ahead of ERV)
- Queens House, Glasgow where six suites were let for a combined £100,000 (18% ahead of ERV)

At 50 Farringdon Road we are getting two floors back in the summer, following an occupier break option. The current passing rent is £0.84 million per annum and the occupier had a capped rent review at £1.14 million per annum (£45 per sq ft) and would have received six months rent free after the break date. The building was comprehensively refurbished five years ago and we are seeing strong demand for this mid-town location adjacent to Farringdon Station. We expect to let the space quickly for £1.4 million per annum (£55 per sq ft) with minimal expenditure.

### SECTOR OUTLOOK

Our central London portfolio remains almost fully let, with the only void at Angel Gate, which is under offer. The floors at Farringdon Road are coming back this summer, but the building presents well and we already have interest. The regional portfolio is seeing growth in occupier demand, demonstrated by our experience in St. Albans, translating into rental growth in markets where good quality space is becoming scarce. The only other notable voids on the horizon are in a number of south east offices, but a combination of reducing supply and the advantages of attractive higher value uses are likely to create opportunities rather than be seen as a short term risk.



## PORTFOLIO KEY METRICS

	2016	2015
Value	£252.1 million	£173.4 million
Internal Area	999,400 sq ft	799,800 sq ft
Annual Rental Income	£14.8 million	£10.6 million
Estimated Rental Value	£19.9 million	£14.2 million
Occupancy	95.8%	93.1%
Number of Assets	21	20

Property	Area (sq ft)	Freehold/Leasehold
Colchester Business Park, The Crescent, Colchester, Essex	150,700	L
Pembroke Court, Chatham, Kent	86,300	L
Longcross Court, Newport Road, Cardiff	72,900	F
Metro, Salford Quays, Manchester	71,000	F
Angel Gate Office Village, City Road, London EC1	64,500	F
401 Grafton Gate East, Milton Keynes, Bucks.	57,100	F
180 West George Street, Glasgow	52,000	F
Queens House, 19/29 St Vincent Place, Glasgow	50,200	F
800 Pavilion Drive, Northampton Business Park, Northampton	49,400	F
Citylink, Addiscombe Road, Croydon	48,200	F
Boundary House, Jewry Street, London EC3	45,000	F
L'Avenir, Opladen Way, Westwick, Bracknell, Berks.	41,300	F
Sentinel House, Ancells Business Park, Fleet, Hants.	33,600	F
50 Farringdon Road, London EC1	32,000	L
Waterside Park, Longshot Lane, Bracknell, Berks.	30,200	F
Waterside House, Kirkstall Road, Leeds	25,200	F
Atlas House, Third Avenue, Globe Park, Marlow, Bucks.	24,800	F
Merchants House, Crook Street, Chester	22,200	F
Trident House, 42/48 Victoria Street, St Albans, Herts.	18,900	F
1-3 Chancery Lane, London WC2	15,100	F
Marshall Building, 122-124 Donegall Street, Belfast	8,700	F

Largest occupiers	% of total portfolio
1 Cadence Design Systems Limited	2.3
2 Trainline.com Limited	2.0
3 Portal Chatham LLP	1.7
4 Ricoh UK Limited	1.5
5 BPP Holdings Limited	1.2

# INVESTMENT MANAGER'S REPORT

## CASE STUDY: RETAIL AND LEISURE

# REGENCY WHARF BIRMINGHAM



### STRATEGY IN ACTION



WORKING WITH OUR  
OCCUPIERS



GROWTH OF NET INCOME

## REPOSITIONING OF THIS WELL LOCATED LEISURE ASSET

### THE OPPORTUNITY WE RECOGNISED

After several occupier defaults during the recession we had two vacant restaurants at this scheme. In order to attract new occupiers we rejuvenated the estate and set about creating a strong social media campaign to attract customers.

Graffiti Life were hired to create a Regency Wharf mural / motif by the main entrance, and also install iconic "ghost-writing" across the Glassworks building, giving the estate much needed prominence and fully branded visibility.

In respect of lettings, Karaoke Box signed up for their first unit outside of London. Their launch in November 2015 received significant press coverage both for their state-of-the-art

fit-out and opening night. Karaoke Box took a new 15 year lease, no break, at £80,000 per annum with a 12 month rent incentive.

The other vacant restaurant was let to Rub Smokehouse, who have become a popular destination on Broad Street. Rub took a new 15 year lease, subject to break, at £70,000 per annum with a nine month rent incentive. Both lettings were in line with ERV and the estate is now fully let with a much improved and more diverse occupier line-up.

In addition, the central courtyard area, originally designed as an amphitheatre space, was returned once again to an entertainment arena. Picton utilised this area in the summer of 2015 to host an inaugural street food event.

### KEY PROPERTY DETAILS

<p>Increase in value</p> <p><b>5%</b></p>	<p>Number of occupiers</p> <p><b>5</b></p>	<p>Size</p> <p><b>44,300<sub>sq ft</sub></b></p>
<p>Annual Rent</p> <p><b>£640,000</b></p>	<p>Year built</p> <p><b>2001</b></p>	<p>EPC Rating</p> <p><b>C-E</b></p>





# INVESTMENT MANAGER'S REPORT

## RETAIL AND LEISURE PORTFOLIO REVIEW

Occupancy in the retail and leisure portfolio is 99.4%, a 3.3% increase on last year. We have three small shops available in Birmingham, Carlisle and Hanley with a combined ERV of £60,000 per annum.

Three units were let during the year for a combined income of £227,500 per annum (after incentives), 2% ahead of ERV.

We have seen negative rental growth of 1% across the retail and leisure portfolio, reflecting trading conditions in this sector.

### HIGHLIGHTS OF THE YEAR

We acquired a freehold retail warehouse in Sheffield for £17.7 million, reflecting a net initial yield of 6.6%. The property is well located close to Sheffield city centre, in an established retail warehouse location and adjacent to Queens Road Retail Park. It was built in 2002 on a nine acre site, comprising a 103,000 sq ft retail warehouse with a 40,000 sq ft outdoor garden centre, builders' yard and 460 space car park. The property is leased to B&Q Plc for a further 11.8 years at an annual rent of £1.24 million, which equates to a low overall rent of approximately £12 per sq ft and is subject to review in December 2017.

A non-core high street retail unit in Guildford was sold for £3.25 million, reflecting a net initial yield of 4.3%. The unit is leased to L'Oreal (UK) Limited, trading as Kiehl's, for a further 4.8 years at an annual passing rent of £148,000. This price reflects a 9.2% premium to the preceding valuation and a 30% uplift from the 2010 acquisition price.

At Gloucester Retail Park, acquired in March 2015, we have secured planning under an Agreement for Lease with Pure Gym who are, in a back to back transaction, taking the Carpetright unit on a ten year lease at a rent of £140,000 per annum, 32% ahead of ERV. The surrender premium from Carpetright is covering the works to the unit and the letting sets new evidence on the park. In a separate transaction, we await planning for a drive through in the car park which is under offer to a Starbuck's franchisee. Both lettings improve the tenant mix on the park and will drive footfall.

Following a wider repositioning exercise at Regency Wharf, Birmingham, two lettings have completed, achieving 100% occupancy. We leased the ground floor unit to Karaoke Box at a rent of £80,000 per annum and the third floor unit to Rub Smokehouse, at a rent of £70,000 per annum, both of which were in line with the preceding ERV.

We have partly settled the legal dispute in respect of the Strathmore Hotel in Luton, but are still pursuing another interested party, seeking a final settlement in respect of this issue within the next financial year.

At our former industrial holding in Oldham, which was vacant, we have entered into an Agreement to Purchase an adjoining plot of land from the Council for £80,000 to increase the car parking provision, entered into an Agreement for Lease with The Gym Limited and secured planning for a change of use. The lease completes in the early summer following works to the unit and The Gym Limited is taking a 15 year lease at £150,000 per annum. The rent secured is 52% ahead of the former ERV.

### SECTOR OUTLOOK

The portfolio remains very well let and we expect to maintain these high occupancy levels. Rents have been rebased across the majority of the assets and we are beginning to see pockets of rental growth such as at Gloucester.



Pictured:

62/68 Bridge Street, Peterborough, Gloucester Retail Park and 53/55/57 Broadmead, Bristol

## PORTFOLIO KEY METRICS

	2016	2015
Value	£165.9 million	£149.7 million
Internal Area	830,700 sq ft	732,300 sq ft
Annual Rental Income	£11.2 million	£9.8 million
Estimated Rental Value	£10.9 million	£9.9 million
Occupancy	99.4%	96.1%
Number of Assets	19	19

Property	Area (sq ft)	Freehold/Leasehold
Parc Tawe, Phase II, Link Road, Swansea	116,700	L
Gloucester Retail Park, Eastern Avenue, Gloucester	112,400	F
Queens Road, Sheffield	103,000	F
62/68 Bridge Street, Peterborough	88,700	F
Strathmore Hotel, Arndale Centre, Luton, Beds.	81,600	L
Angouleme Way Retail Park, Bury, Greater Manchester	76,200	F/L
17/19 Fishergate, Preston, Lancs.	59,900	F
Regency Wharf, Broad Street, Birmingham	44,300	L
Scots Corner, High Street/Institute Road, Birmingham	30,000	F
56 Castle Street, 2/12 English Street and 12–21 St Cuthberts Lane, Carlisle, Cumbria	23,900	F
Stanford House, 12–14 Long Acre, London WC2	19,600	F
6/12 Parliament Row, Hanley, Staffs.	17,300	F
Units 1–3, 18/28 Victoria Lane, Huddersfield, West Yorks.	14,600	L
53/55/57 Broadmead, Bristol	10,500	L
72/78 Murraygate, Dundee	9,700	F
7 & 9 Warren Street, Stockport	8,700	F
78–80 Briggate, Leeds	7,700	F
2 Bath Street, Bath	4,700	F
6 Argyle Street, Bath	1,200	F

Largest occupiers	% of total portfolio
1 B&Q Plc	2.9
2 Edward Stanford Limited	1.8
3 Asda Stores Limited	1.4
4 GLH Hotels Limited	1.2
5 Homebase Limited	1.0

# FINANCIAL REVIEW

“Our average annual return over the last three years is more than 22%, providing evidence of the continued success of our strategy.”

## EPRA BEST PRACTICES RECOMMENDATIONS

The EPRA key performance measures for the year are set out on page 4 of the Report, with more detail provided in the EPRA Disclosures section which starts on page 97. There are further references to the Best Practices Recommendations in the Financial Review under the appropriate headings, and again more detail is provided in the EPRA Disclosures section.



2016 was another year of strong financial results for Picton. The total profit of nearly £65 million pushed net assets to over £417 million, an increase of over 12%.

Taking into account the increased dividend paid out this year, our total return was close to 18%. Our average annual return over the last three years is more than 22%, providing evidence of the continued success of our strategy. We have strengthened the portfolio through a number of notable acquisitions, investing more than £73 million in new assets, and a further £4 million in existing assets.

As a result of this investment, we have been able to grow the income profit by 30% to nearly £20 million.

Our growth in net assets has produced further economies of scale, resulting in another fall in the Ongoing Charges ratio, down 8% compared to last year, to 1.1%

**Andrew Dewhirst**  
Finance Director, Picton Capital Limited  
27 June 2016







# FINANCIAL REVIEW

“We paid four quarterly dividends of 0.825 pence per share, totalling 3.3 pence for the year, an increase of 10% over 2015.”

Total Revenue  
**£45.9m**

Dividend  
**3.3p**

Property Assets  
**£646.0m**

## NET ASSET VALUE

The net assets of the Group rose over the year by 12.7%, to £417.1 million, driven by a total profit for the year of £64.8 million, or earnings per share of 12 pence. The EPRA net asset value rose from 69 pence to 77 pence.

The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA).



	2016 £m	2015 £m	2014 £m
Net asset value – EPRA and IFRS	417.1	370.0	214.1
Fair value of debt	(21.8)	(19.8)	17.8
EPRA Triple Net Asset Value	395.3	350.2	231.9
Net Asset Value per share (pence)	77	69	56
EPRA Net Asset Value per share (pence)	77	69	56
EPRA Triple Net Asset Value per share (pence)	73	65	61

## INCOME STATEMENT

Total revenue from the property portfolio was £45.9 million, an increase of 15.8% over 2015. This reflects the additional income generated from the new assets acquired in the year. Net property income, after deducting the direct expenses associated with the portfolio, was up over 18% to £35.9 million.

The like-for-like change in rental income compared to the previous year, on an EPRA basis, is set out in the EPRA Disclosures on page 99.

Operating expenses increased to £4.4 million, partly due to the impact of the market testing of staff salary rates in early 2015, but also some additional corporate level costs.

Financing costs are broadly in line with previous years, given the fixed interest rates in place on the majority of the Group's borrowings, but with some extra costs associated with the new revolving credit facility and the zero dividend preference shares. The repayment of the ZDPs is discussed further below.

Capital gains on the portfolio were £45 million for the year, as detailed further under the Investment Properties section.

The Group is subject to UK tax on its net property income and management fees, in total £0.2 million for the year. We are monitoring the UK government's BEPS proposals closely, and the implications for the Group if these are implemented as currently drafted; however, at this stage it is too early to provide a definitive response.

The income profit for the year was £19.9 million, an increase of 30% from 2015. This, together with the capital gains, resulted in a total profit for the year of £64.8 million.

## DIVIDENDS

We paid four quarterly dividends of 0.825 pence per share, totalling 3.3 pence for the year, an increase of 10% over 2015. As a result of the increase, dividend cover has fallen back to 112% for the year, but we consider this to be an appropriate level, given that a full year's impact of the new acquisitions has yet to come through in the results. The Board will continue to monitor the level of dividends.

## INVESTMENT PROPERTIES

The fair value of our investment property portfolio increased to £646.0 million at 31 March 2016, up from £532.9 million in March 2015. Included within this uplift are acquisitions of £73.1 million, which are detailed in the Investment Manager's Report, and capital expenditure across the existing portfolio of £4.4 million, enhancing the quality of the assets and space available. Three small non-core assets were disposed of, for proceeds of £9.4 million, realising £0.8 million when compared to the 2015 valuation. The overall revaluation gain was £44.2 million, representing a 9.2% like-for-like increase in the valuation of the portfolio. At 31 March 2016 the portfolio comprised 58 assets, with an average lot size of £11.3 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practice Recommendations, is set out in the EPRA Disclosures section on page 99.

## BORROWINGS

Total borrowings increased to £249.5 million at 31 March 2016, largely due to the drawdown under the revolving credit facility to help fund the acquisition of the Salford Quays asset. Our senior loan facilities with Canada Life and Aviva remained in place, reduced only by the amortisation of the Aviva facility (£1.0 million in the year). The Group remained fully compliant with the loan covenants throughout the year.

A summary of our borrowings is set out below:

	2016	2015	2014
Total borrowings (£m)	249.5	232.8	234.0
Borrowings net of cash (£m)	226.8	162.8	201.7
Undrawn facilities (£m)	10.2	26.0	–
Loan to value ratio (%)	34.6	30.1	47.7
Weighted average interest rate (%)	4.4	4.6	4.5
Average duration (years)	10.7	12.4	13.4

Our 22 million zero dividend preference shares continued to roll up additional capital at an annual rate of 7.25%, £1.9 million over the year. These shares mature this year in October 2016, and it is our intention to repay them in full. With current market interest rates considerably lower than the effective ZDP rate, we expect to make a significant saving on finance costs in the future, if the current level of borrowing is maintained.

In February 2016 we made our first drawdown under the Santander revolving credit facility, for £15.8 million. This facility is set at a floating rate of interest, 175 basis points above three month LIBOR. There remains a further £10.2 million undrawn under this facility.

We have now recently agreed a new five year revolving credit facility with Santander for £27 million, on broadly the same terms as the existing facility. In addition to potentially utilising this for the ZDP repayment, it also provides us additional financing for the future at a time when capital raising may be more constrained.

The Group's loan to value ratio increased to 34.6% at 31 March 2016, as was expected, compared to 2015, when the Group held higher cash balances following the equity raising in the year.

The fair value of our borrowings at 31 March 2016 was £271.3 million, higher than the book amount, due to the current very low gilt rates and lower margins in the lending market.

## CAPITAL STRUCTURE

Our equity balance remained unchanged over the year, as, along with the real estate sector generally, our share price moved to a discount to net asset value.

The Group's net gearing ratio, using the method prescribed by the AIC, increased to 59.2%, from 48.9% a year ago. Further details are provided in the Supplementary Disclosures section.

## CASH FLOW AND LIQUIDITY

Our cash balances fell to £22.8 million at the year end, which represents a more normal position compared to 2015. Operating activities generated £24.0 million for the year, an increase from £15.6 million last year.






# MANAGING RISK

The Board recognises that there are risks and uncertainties that could have a material impact on our results.

Risk management provides a structured approach to the decision making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board reviews its policy to risk management on a regular basis. Due to some overlap in responsibilities, the Board has merged the Risk and Audit Committees so that all risks, whether investment or operational, will be considered by a single committee. The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out below, together with mitigating controls.

The 2014 UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment. This statement is set out in the Directors' Report.

## Risk trend key

-  Increase in risk
-  Decrease in risk
-  No change in risk

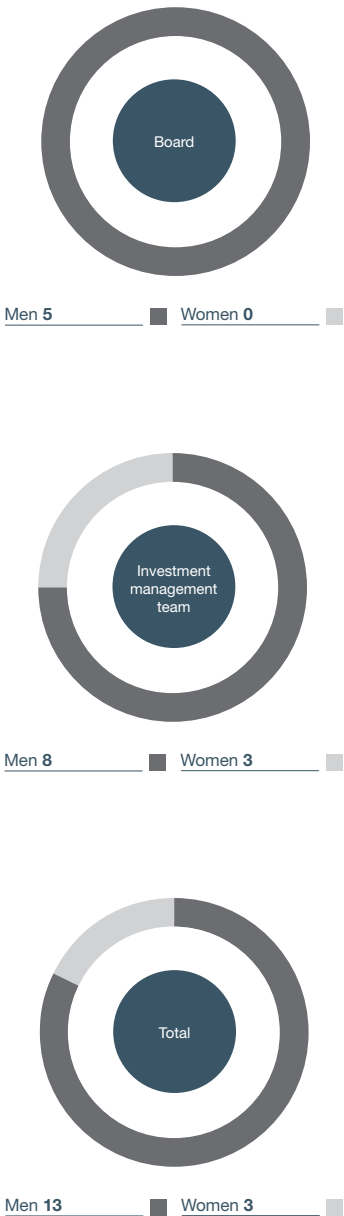
Risk and Impact	Mitigation	Risk Trend
Corporate Strategy and Performance		
<p><b>Macroeconomic conditions and future political events (whilst uncertain in outcome) bring risks to the property market generally and to the businesses of our occupiers.</b></p> <p>The level of uncertainty in financial markets has been heightened in recent months due to a number of global and national issues.</p>	The Board considers economic conditions and the uncertainty regarding political events when setting strategy and in making investment decisions.	
<p><b>The property market is cyclical and returns can be volatile. Failure to react appropriately to changing market conditions could have a significant impact on our results.</b></p> <p>Despite a strong occupier market, capital growth has slowed and is forecast to moderate further.</p>	The Board reviews the Group's strategy on a regular basis and considers whether any change is needed, in light of current market conditions and forecast changes.	
<p><b>Returns can vary significantly between different geographical areas and sectors. Our properties could underperform as a result of a poor portfolio strategy.</b></p>	We maintain a diversified portfolio in order to minimise exposure to any one geographical area or market sector.	
Investment and Property Management		
<p><b>Decisions to buy or sell assets based on incorrect assumptions, poor research or incomplete due diligence could result in lower investment returns.</b></p>	The Investment Manager prepares business plans for each asset on an annual basis. All investment decisions are made by the Board following a formal appraisal and due diligence process.	
<p><b>Active management initiatives or capital expenditure decisions do not enhance values due to flawed analysis or assumptions.</b></p>	All asset management and investment decisions are subject to a formal internal review process with clear authority limits.	
<p><b>Poor asset management can lead to long void periods, low occupier retention, high occupier arrears and defaults, and cash flow problems.</b></p>	Our asset managers are focused on income generation and maintain close contact with occupiers to ensure their space requirements are understood and addressed proactively. Creditworthiness checks of potential occupiers are carried out prior to letting.	
Operational		
<p><b>A failure to attract and retain employees of a suitable calibre to manage our affairs could lead to poor shareholder returns.</b></p>	We have a remuneration policy in place which incentivises performance and is aligned to our results. The Board commissions independent reviews of market remuneration to ensure salary levels are competitive.	

Risk and Impact	Mitigation	Risk Trend
<b>Operational</b>		
We could fail to anticipate legal, fiscal or regulatory changes, which may lead to an adverse financial or regulatory impact.	We employ various professional advisers who provide regular updates in relevant laws and regulations.	→
Health and safety management processes could fail, leading to financial or reputational loss.	The Group's property manager is required to carry out all necessary health and safety checks, and is subject to the oversight of the Investment Manager.	→
<b>Financial</b>		
<p>The assumptions used in the valuation of property assets include many external factors, including prevailing economic conditions. In adverse conditions there can be a reduction in property values leading to a fall in the Group's net asset value and potentially failure to meet financing covenants.</p> <p>The Directors consider that current uncertainty around economic conditions following the EU referendum vote has heightened this risk.</p>	We maintain detailed forecasts of our property portfolio, which are subject to regular scenario testing. In this way we will be able to react to expected changes in economic conditions in a timely manner.	↑
A fall in our investment property values could lead to a breach of our loan covenants, and leave the Group without sufficient long-term funding.	Covenant headroom and sensitivity to forecast asset values are regularly monitored by the Board.	→
An increase in interest rates could lead to a fall in our earnings.	We have entered into long-term fixed interest rate loans on the majority of our facilities and hence have reasonable certainty over interest cost for the foreseeable future.	→
We operate a geared capital structure, which will magnify returns from the property portfolio, both positively and negatively. An inappropriate level of gearing for the property cycle could lead to lower investment returns.	We have a gearing strategy in place and the Board regularly reviews property market forecasts, so that it is able to amend its strategy in the light of changing market conditions. Our current strategy is to reduce the level of gearing as the property cycle progresses.	↑
Fluctuations in cash flows from operating activities can have a detrimental impact on debt servicing, asset management initiatives and shareholder returns.	Cash flow forecasts are regularly prepared and reviewed by the Board to ensure sufficient cash resources are available to meet the operating needs of the business. Debt covenants are continually monitored and reported to the Board.	→

# BEING RESPONSIBLE

The Board is responsible for setting the values and standards of the Group, including leadership on environmental and social issues.

### Diversity



### Why this is important to us

We have in place a framework for conducting business in a way that makes a positive contribution to society, whilst minimising any negative impacts on people and the environment.

One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. We will use our expertise in asset management to provide modern flexible space that is safe, clean and energy efficient. We believe that it is important for all of the stakeholders in the business that we put sustainability at the forefront in all of our activities. In this way we can constantly strive to reduce the environmental burdens from our business.

### OUR PEOPLE

#### FAIRNESS AND EQUALITY

We value the contributions made by all of our employees and believe that a diverse workforce is key to maximising business effectiveness. We aim to select, recruit, develop and promote the very best people and are committed to creating a workplace where everyone is treated with dignity and respect, and where individual difference is valued.

This is accomplished by:

- Ensuring equal opportunities in the recruitment process
- Paying fair and competitive salaries and having reasonable and competitive family and well-being policies
- Being opposed to any form of less favourable treatment, whether through direct or indirect discrimination, harassment or victimisation, accorded to employees and applicants for employment on the grounds of sex, sexual orientation, marital or parental status, disability, race, religious beliefs, age, ethnic or national origin, or any other protected characteristic.

#### EMPLOYEE ALIGNMENT

Unlike traditional investment companies we have a dedicated internal investment management team whose entire focus is on creating long term value for our shareholders. Our employees are fully aligned through our remuneration policy, ensuring that outperformance is suitably recognised in bonus awards.

#### DIVERSITY

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge in the Board and investment management team.

### PERFORMANCE AND DEVELOPMENT

We aim to provide a business environment that inspires our employees and encourages them to realise their full potential by giving them access to development and training opportunities.

This is attained through the following key principles:

- Development should be continuous; employees should always be actively seeking to improve performance
- Regular investment of time in learning is seen as an essential part of working life
- Development needs are met by a mix of activities, which include internal and external training courses, structured 'on the job' work experience and through interaction with professional colleagues.

### HEALTH AND WELL-BEING

Health and well-being is critical to the business, both within the property portfolio and also within the office environment.

Our commitment to providing a safe and healthy working environment for all employees is achieved by:

- Adhering to the appropriate health and safety standards
- Providing a working environment that enables employees to work effectively and free from unnecessary anxiety, stress and fear
- Offering private health benefits to all employees
- Ensuring employees can report inappropriate behaviour or concerns through the whistleblowing policy
- Having appropriate family friendly policies.



## PICTON ART PRIZE

Celebrating outstanding public art, giving students and graduates valuable opportunities, offering artists support to produce new work.

The Picton Art Prize is a new public art platform that gives an early career artist the opportunity to create an original work for installation.

The Picton Art Prize is an exciting new collaboration between Picton and University of the Arts, London, a collaboration that highlights both the importance of support for emerging artists and the impact their work can have when it finds its home in the heart of a community.

We invited students and recent graduates of University of the Arts, London to submit proposals for this new sculptural commission.

The winner was Alex J. Wood, whose sculpture "Celestial" is now in place at Angel Gate Office Village.



## SOLAR FEASIBILITY STUDY

Last year we carried out a solar photovoltaic feasibility study across the portfolio to determine potential sites suited to solar installations.

The aim was to reduce the reliance on electricity from non-renewable sources at the site and reduce tenant occupancy costs by providing lower energy prices.

We selected 401 Grafton Gate in Milton Keynes as the first site, and we have installed a 50kWp solar panel array at this multi-let office building. This is reducing our carbon footprint and has been successful in providing cheaper electricity to the occupiers.



# BEING RESPONSIBLE

## THE ENVIRONMENT

It is recognised that certain natural resources are finite and must therefore be used responsibly. This is achieved by controlling any environmental burdens caused by our activities.

Assessment of the environmental performance of our portfolio is ongoing. In order to continue to improve, we work closely with our property managers and occupiers to develop cost-effective measures to increase energy efficiency. We also use our consultants at CBRE to engage with property managers and create sustainability improvements at each asset where we have control.

Sustainability initiatives have been incorporated into all maintenance schedules including replacing conventional light bulbs with LEDs in common areas, installing motion sensitive lighting, optimising plant equipment and building management systems to reduce energy consumption.

We have installed a 50kWp solar panel array at one of our multi-let office buildings, 401 Grafton Gate in Milton Keynes. This is reducing our carbon footprint and providing cheaper electricity from a renewable source to the occupiers of the building.

We have carried out a number of in-depth energy audits at selected assets, identified as significant energy consuming sites. The focus of these audits has been to determine the most efficient means of reducing energy consumption while delivering value to the occupiers. The recommendations made by the audits are being assessed with a view to implementation over the next year.

Additionally, we have launched a project to appraise the risk of each property under the Minimum Energy Performance standards that will come into force from September 2018. Corrective measures will be identified for any assets with an F or G rating and these will be integrated into the asset business plans in order to achieve the appropriate higher ratings.

Our absolute carbon emissions have increased this year, due partly to the acquisition of a number of assets, including multi-let offices which are relatively energy intensive, but also fluctuations in occupancy. This year we are aiming to reduce both absolute and like-for-like emissions through the identification and implementation of further energy efficiency measures across the portfolio.

In the workplace it is our policy to:

- Constantly strive to reduce the amount of paper used
- Encourage employees to use public transport where possible to reduce CO<sub>2</sub> emissions
- Pick products wisely such as using recycled paper and avoiding disposable or non-biodegradable items
- Recycle, by offering accessible recycling bins in the office
- Use energy-efficient products and appliances and reduce consumption where possible

## REPORTING AGAINST EPRA SUSTAINABILITY BEST PRACTICE

This is the third year that we have reported our overall energy, greenhouse gas, water and waste usage by sector. In the EPRA Disclosures section we have disclosed the absolute and intensity performance measures as set out by the EPRA Sustainability Best Practice Recommendations. These will allow the Group to identify and target key impact areas across the portfolio, contributing to better management of the overall environmental performance, and to formulate indicator targets to track sustainability performance.

The following measures are set out in the EPRA Disclosures section towards the end of the Report:

Issue Type	Sustainability Performance Measure
Energy	Total electricity consumption
	Like-for-like total electricity consumption
	Total fuel consumption
	Like-for-like total fuel consumption
	Building energy intensity
Greenhouse gas emissions	Total direct GHG emissions
	Total indirect GHG emissions
	Like-for-like total direct GHG emissions
	Like-for-like total indirect GHG emissions
	GHG intensity from building energy
Water	Total water consumption
	Like-for-like total water consumption
	Building water intensity
Waste	Total weight of waste by disposal route
	Like-for-like total weight of waste by disposal route
Business travel	Total business travel emissions

There is no district heating or cooling consumption within the portfolio and so there is nothing to report against these sustainability measures.

One asset within the portfolio, Angel Gate Office Village, has a sustainability certification (ISO 14001), while our latest acquisition, Metro in Salford Quays, has a BREEAM 'Excellent' rating, giving an overall level of certification of 3.4% across the portfolio.

## GREENHOUSE GAS EMISSIONS

We have measured our greenhouse gas (GHG) footprint for the third time for this year's Annual Report, building on the recommendations from last year. This year's data has again been compiled for the calendar year to 31 December 2015. Our GHG emissions for the year totalled 5,346 tCO<sub>2</sub>e, compared to 4,963 last year, an increase of 8%. The table below shows this separated by scope, as provisioned in the GHG Protocol. Our 2015 footprint compared to the 2013 baseline year shows a small increase of 5% (2014: fall of 2%). Our GHG inventory has been compiled using an Operational Control approach.

### CO<sub>2</sub> (metric tonnes)

2015	5,346	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>
2014	4,711	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>
2013	5,070	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>

Emission source	GHG Scope	2015		2014	
		Absolute GHG emissions (tCO <sub>2</sub> e)	GHG Intensity (tCO <sub>2</sub> e/m <sup>2</sup> )	Absolute GHG emissions (tCO <sub>2</sub> e)	GHG Intensity (tCO <sub>2</sub> e/m <sup>2</sup> )
Combustion of fuel and operation of facilities	1	994	0.005	951	0.005
Electricity, heat, steam and cooling purchased for own use	2	4,342	0.022	4,005	0.021
Business travel	3	10	N/A	8	N/A
Total		5,346	0.028	4,963	0.026

In order to express our annual emissions in relation to the growth of our business, and to negate the effects of acquisitions and disposals, we report GHG emissions intensity measurements, in tonnes of CO<sub>2</sub> per square metre of property floor area (tCO<sub>2</sub>e/m<sup>2</sup>).

We have reported on all the emission sources required under UK legislation, and have additionally disclosed business travel (scope 3) emissions. These sources fall within the Group's consolidated financial statements. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014. 9% of carbon reported was based upon estimates and as such the results are preliminary and subject to revision.

## CHARITY AND LOCAL COMMUNITIES

We continue to support a variety of charities, principally through The Funding Network, whose aim is to achieve long-term social change. The Funding Network enables individuals to join together to support social change projects. They are the UK's first public open giving forum and have been described as the 'Dragons' Den' for charities. They have raised over £9 million for over 1,300 diverse local, national and international projects.

For the year ended 31 March 2016 the Group made charitable donations totalling over £7,000.

In July 2015 seven members of the Picton team cycled 235 miles from Waterloo Station in London to Waterloo in Belgium, to mark the tenth anniversary of the launch of Picton, which coincided with the 200th anniversary of the battle where General Sir Thomas Picton fought under Wellington. The ride successfully raised £20,000 for three charities – War Child, LandAid and The Funding Network.

Our employees are encouraged to play a positive role in community activities and individual charitable fundraising is supported through the process of 'matched giving'.



# GOVERNANCE

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# CHAIRMAN'S INTRODUCTION

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“As a Board we recognise the importance of good corporate governance and aim to be open and transparent in our dealings with shareholders.”

The Board is committed to maintaining a high standard of corporate governance and transparency throughout the business.

As a member of the Association of Investment Companies, we comply with the AIC Code, which ensures the Group meets its obligations under the UK Corporate Governance Code.

In 2014 we set up a separate Risk Committee, to help us address the additional responsibilities arising from the Alternative Investment Fund Managers Directive, including developing a Risk Management Policy across the Group. We recognised that there would be some overlap in responsibilities with the Audit Committee and subsequently have concluded that the two committees should be merged, which was effective from February 2016.

This year we have established a separate Nominations Committee, which has already met twice. It has considered a number of matters, including succession planning, and also the proposed appointment of Michael Morris to the Board.

As a Board we recognise the importance of good corporate governance and aim to be open and transparent in our dealings with shareholders. We encourage involvement with industry bodies, and a number of the Directors actively participate with the AIC in both Guernsey and the UK.

I would like to thank shareholders for their support in passing all of the resolutions presented at last year's Annual General Meeting. This year, along with the usual annual resolutions, we will be seeking approval for changes to the Company's Articles to bring them into line with the requirements of Guernsey company law.

Finally I would again like to express my thanks to Trevor Ash, who stepped down on 1 October 2015, for his invaluable contribution to the Board since the launch of the Company in 2005.

**Nicholas Thompson**  
Chairman  
27 June 2016

 Read more about our **Nominations Committee** on page 60

 Read more about our **Audit and Risk Committee** on pages 61 to 63

**Pictured:**  
Pembroke Court, Chatham

# BOARD OF DIRECTORS

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## 1. NICHOLAS THOMPSON

### CHAIRMAN

Age 67, was formerly Director and Head of Fund and Investment Management at Prudential Property Investment Management and has served on the Board as Chairman since 2005. He is currently Chairman of MSCI IPD's UK & Ireland Consultative Group, a director of the Lend Lease Retail Partnership and an independent director of the Association of Real Estate Funds. He is a Fellow of the Royal Institution of Chartered Surveyors and a member of the Property Forum of the Association of Investment Companies.

## 2. ROBERT SINCLAIR

### CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

Age 66, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, Chairman of Sirius Real Estate Limited and a director of Chariot Oil & Gas Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.

## 3. ROGER LEWIS

### CHAIRMAN OF THE PROPERTY VALUATION COMMITTEE

Age 69, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which were as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group, as well as being a director of the States of Jersey Development Company Limited. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholson's Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.

## 4. VIC HOLMES

### CHAIRMAN OF THE REMUNERATION COMMITTEE

Age 59, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full-time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, DBAG, GAM, Atlantis and Roundshield. He is also Chairman of Generali Worldwide Insurance Company Limited, a director of Next Energy Solar Fund Limited and Chairman designate of Highbridge Multi-Strategy Fund Limited (both London listed companies), and was Chairman of the Guernsey Investment Funds Association from April 2013 until April 2015. He is a Fellow of the Association of Chartered Certified Accountants.

## 5. MICHAEL MORRIS

Michael, age 44, has over 22 years' experience in the UK commercial property sector, working initially in private practice, becoming a Senior Director and Fund Manager at ING Real Estate Investment Management (UK) Limited. Michael was appointed to the Board on 1 October 2015. He has worked with the Group since it launched in 2005 and is currently Chief Executive of Picton Capital Limited. Within this role he is responsible for the Group's Investment Management operation, overseeing the implementation of all aspects of the Company's investment strategy. He is a member of the Investment Property Forum and sits on both the Property and Infrastructure Forum of the Association of Investment Companies and the CPD steering committee of the Investment Property Forum. He has obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

# INVESTMENT MANAGEMENT TEAM

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The investment management team comprises 12 permanent employees, and includes six real estate professionals, three qualified accountants and three further support employees.

### 1. MICHAEL MORRIS

#### CHIEF EXECUTIVE

Michael, age 44, is Chief Executive of Picton Capital Limited and is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy. He is also a non-executive director of Picton Property Income Limited.

### 2. ANDREW DEWHIRST

#### FINANCE DIRECTOR

Andrew, age 56, joined Picton Capital Limited as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. Prior to joining ING Andrew was Director of Securities and Property Accounting at Hermes Pensions Management Limited. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

### 3. JAY CABLE

#### DIRECTOR

Jay, age 38, is Head of Asset Management at Picton Capital Limited. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. Jay plays an active role in devising and implementing the Company's strategy and is a member of Picton Capital's Investment Committee. He has over 16 years of real estate experience and is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

### 4. FRASER D'ARCY

#### INVESTMENT DIRECTOR

Fraser, age 40, joined Picton Capital Limited as Investment Director in January 2013. He is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006, where he was responsible for acquisitions and disposals in all sectors across the UK market. Prior to this he was an Associate Director at Insight Investment, having started his career at Scottish Widows Investment Partnership as an Investment Manager. He has 16 years of investment experience in UK real estate and has obtained the Investment Management Certificate. Fraser is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

### 5. LAURENCE JONES

Laurence Jones is a Senior Asset Manager at Picton Capital Limited, and a member of the Royal Institution of Chartered Surveyors and has obtained the Investment Management Certificate. In this role, he is responsible for delivering all the asset management initiatives required to fulfil the portfolio's strategy. He has 12 years of real estate experience and has worked on the Group's portfolio since July 2007.

### 6. TIM HAMLIN

Tim Hamlin is a Senior Asset Manager at Picton Capital Limited and a member of the Royal Institution of Chartered Surveyors and has obtained the Investment Management Certificate. He is responsible for the formulation and implementation of asset level business plans in line with the overall portfolio strategy. He has nine years of real estate experience and eight years working with the Group's portfolio.

### 7. MATTHEW BARKER

Matthew Barker joined Picton Capital Limited as an Asset Manager in August 2014 from JLL. He is a member of the Royal Institution of Chartered Surveyors and is responsible for assisting with the asset management and performance of the property portfolio in order to deliver superior returns.

### 8. SONYA KAPUR

Sonya Kapur joined Picton Capital Limited in January 2012. Previously she worked at BNP Paribas Real Estate as an investment analyst. She is responsible for all aspects of analysis and research within the Company. Sonya has the IPF Diploma in Property Investment.

### 9. JAMES FORMAN

James is the Financial Controller at Picton Capital Limited. In this role, he is responsible for all the accounting and financial reporting for the Group. He has worked with the Group since 2005 and has 16 years' experience in the real estate sector. James is a Fellow of the Association of Chartered Certified Accountants.

### 10. ADAM GREEN

Adam Green joined Picton Capital Limited in January 2012 from Invista Real Estate Investment Management as Accounts Assistant. Adam is a member of the Association of Chartered Certified Accountants.

### 11. CLARE BUNNING

Clare Bunning is responsible for the day-to-day management of the office and oversees all aspects of administration support within the Company. She has worked with the Group since May 2007, and is currently on maternity leave.

### 12. SARAH BARNES

Sarah Barnes joined Picton Capital Limited in June 2014 and provides administration support to the team.



# CORPORATE GOVERNANCE REPORT

As a member of the Association of Investment Companies ("AIC"), the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). In these financial statements, the Company is reporting against the February 2015 AIC Code and AIC Guide which take into account updates made to the UK Corporate Governance Code in September 2014.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council has confirmed that, by following the AIC Guide, investment company boards should fully meet their obligations in relation to the UK Code.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

Except as disclosed below, the Company has complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Code.

By complying with the AIC Code and the UK Code, the Board considers that it is in compliance with the provisions of the Code of Corporate Governance published by the Guernsey Financial Services Commission.

## THE BOARD

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing. The Board meets regularly, normally quarterly, and more frequently if necessary.

The Board has delegated responsibility for operational matters under an Investment Management Agreement to its Investment Manager, Picton Capital Limited.

## COMPOSITION

The Company is led and controlled by a Board composed of non-executive Directors, all of whom have wide experience and, with the exception of Michael Morris, who is the Chief Executive of the Group's Investment Manager, are considered to be independent. Although two members of the Board have now served for more than a term of nine years, they are considered to be independent in character and judgement.

In making any new appointment the Board will consider a number of factors, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members.

The Articles of Association stipulate that all new Directors shall retire at their first Annual General Meeting and offer themselves for reappointment. One-third, or the number nearest to but not exceeding one-third, of the Directors shall retire and offer themselves for re-appointment at each subsequent Annual General Meeting.

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis. The Board believes that it is in the shareholders' best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

This Directive is European legislation which creates an EU-wide framework for regulating an Alternate Investment Fund Manager (AIFM). The Group's activities fall within the scope of the Directive and the Board has determined that the Company itself will act as AIFM for these purposes.

## NON-MAINSTREAM POOLED INVESTMENTS

The Company currently conducts its affairs so that its shares can be recommended by independent financial advisers to retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

## COMMITTEES

The Board has established four Committees: Audit and Risk, Remuneration, Property Valuation and Nominations. The Audit and Risk Committees were merged with effect from February 2016. The terms of reference for these Committees are available on the Company's website. Given Michael Morris's position as Chief Executive of the Company's Investment Manager, the Board has agreed that he will not serve on any of the Board Committees.

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	Board (5 meetings)	Audit (3 meetings)	Remuneration (2 meetings)	Property Valuation (4 meetings)	Risk (4 meetings)	Nominations (2 meetings)
Nicholas Thompson	5	3	2	2	2	2
Robert Sinclair	3	3	2	3	2	1
Trevor Ash (to 1 October 2015)	3	2	–	1	1	1
Roger Lewis	5	3	1	4	2	2
Vic Holmes	5	3	2	3	2	2
Michael Morris (from 1 October 2015)	2	–	–	–	–	–

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above.

### EVALUATION

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years and internally by the Directors for intervening years. The latest external evaluation was performed in August 2014, by Trust Associates, who have carried out previous external evaluations. An internal evaluation was carried out in February 2016, using questionnaires prepared by the Company's Administrator. The evaluation addressed all aspects of the running of the Board.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. Such review procedures have been in place throughout the full financial year, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

This process involves a review by the Board of the control environment within the Group's service providers to ensure that the Group's requirements are met.

The Group does not have an internal audit function. Following the change to internalised management, and given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Administrator's internal control systems.

These systems are designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The effectiveness of the internal control systems is reviewed annually by the Board and the Audit and Risk Committee. The Audit and Risk Committee has a discussion annually with the auditor to ensure that there are no issues of concern in relation to the audit opinion on the financial statements and, if necessary, representatives of the Investment Manager would be excluded from that discussion.

### RELATIONS WITH SHAREHOLDERS

In conjunction with the Board, the Administrator keeps under review the register of members of the Company. All shareholders are encouraged to participate in the Company's Annual General Meeting.

All Directors normally attend the Annual General Meeting, at which shareholders have the opportunity to ask questions and discuss matters with the Directors and senior management. Investors are able to direct any questions for the Board via the Secretary.

The Chairman regularly attends analyst meetings and is available to meet investors if requested. The outcome of these meetings is communicated to the rest of the Board.

# NOMINATIONS COMMITTEE REPORT

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The Nominations Committee is chaired by Nicholas Thompson. The other members of the Committee are Vic Holmes, Robert Sinclair and Roger Lewis.



## TERMS OF REFERENCE

The Committee's terms of reference include consideration of the following issues:

- Review and make recommendations regarding the size and composition of the Board;
- Consider and make recommendations regarding succession planning for the Board and senior management;
- Identify and nominate candidates to fill Board vacancies as they arise;
- Review the results of the Board evaluation relating to composition;
- Review the time requirements for Directors; and
- Recommend the membership of Board Committees.

## ACTIVITY

The Committee met twice during the year ended 31 March 2016 and considered the following matters:

- Considered the appointment of Michael Morris to the Board to fill the vacancy left by the retirement of Trevor Ash;
- Succession planning; and
- Composition of the subsidiary company boards.

## SUCCESSION PLANNING

During the year the Committee considered succession planning, which was part of the Board evaluation process. The Board has not set a finite tenure policy, as it does not believe that the length of time each Director serves should be limited, however it has determined that all Directors who have served more than nine years will offer themselves for re-appointment annually. Trevor Ash retired from the Board on 1 October 2015, and the Committee recommended to the Board that Michael Morris, who had extensive experience of the Group since its launch in 2005, be appointed in his place. As part of this process the Committee assessed the skills and knowledge appropriate to the role and considered that Michael met the required criteria. The Committee has also considered the timings of retirement of other long serving directors in order to ensure an orderly succession, and is satisfied that suitable arrangements are in place to secure continuity.



# AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee is chaired by Robert Sinclair. The other members of the Committee are Nicholas Thompson, Roger Lewis and Vic Holmes. Meetings of the Audit and Risk Committee are attended by the Finance Director of Picton Capital Limited and other members of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence. The separate Audit and Risk Committees were combined with effect from February 2016, with the first meeting of the merged Committee taking place in May 2016. The terms of reference set out below are those of the merged Committee.



## TERMS OF REFERENCE

The Committee's terms of reference include consideration of the following issues:

- Financial reporting, including significant accounting judgements and accounting policies;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Internal controls and risk management systems;
- Ensuring that key risks are being effectively measured, managed and mitigated;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit and the programme of controls testing; and
- Reporting responsibilities.

## ACTIVITY

The Audit Committee met three times during the year ended 31 March 2016 and considered the following matters:

- External audit strategy and plan;
- Audit and accounting issues of significance;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Review of business risks and internal controls and risk review; and
- Stock Exchange announcements.

The Risk Committee met twice during the year ended 31 March 2016 and considered the following matters:

- The Risk Management Policy for the Group;
- Oversight responsibility and interaction with the Audit Committee; and
- The Risk Matrix and mitigating controls.

# AUDIT AND RISK COMMITTEE REPORT

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## FINANCIAL REPORTING AND SIGNIFICANT REPORTING MATTERS

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2016 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The key area of judgement that the Committee considered in reviewing the financial statements was the valuation of the Group's investment properties.

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in May 2016 and confirmed that the following matters had been considered in discussions with the independent valuers:

- Property market conditions;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Audit and Risk Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2016 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

## RISK MANAGEMENT POLICY

The Committee has considered and adopted a Risk Management Policy for the Group.

The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, risk management, and risk acceptance pertaining to all activities undertaken by the Group. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review and acceptance;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of evaluation and identifying risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

## INTERNAL CONTROLS

The Board is responsible for the Company's internal control system and for reviewing its effectiveness. It has therefore established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also the Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2015, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Capital Limited.

Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place.

## INDEPENDENCE OF AUDITOR

It is the policy of the Group that non-audit work will not be awarded to the external auditor if there is a risk their independence may be conflicted. The Committee monitors the level of fees incurred for non-audit services to ensure that this is not material, and obtains confirmation, where appropriate, that separate personnel are involved in any non-audit services provided to the Group. The Committee must approve in advance all non-audit assignments to be carried out by the external auditor.

The fees payable to the Group's auditor and its member firms are as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Audit fees	104	119
Interim review fees	19	19
Non-audit fees	19	25
	142	163

The non-audit fees include £15,000 for additional controls testing, carried out by KPMG Channel Islands Limited, and £4,000 in respect of the Picton Capital Limited FCA CASS review, carried out by KPMG LLP.

#### ANNUAL AUDITOR ASSESSMENT

On an annual basis, the Committee assesses the qualifications, expertise and independence of the Group's external auditor, as well as the effectiveness of the audit process. It does this through discussion and enquiry with senior management, review of a detailed assessment questionnaire and confirmation from the external auditor. The Committee also considers the external audit plan, setting out the auditor's assessment of the key audit risk areas and reporting received from the external auditor in respect of both the half year and year end reports and accounts.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited has confirmed that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of the audit report;
- The total fees paid by the Group during the year do not represent a material part of their total fee income; and
- They consider that they have maintained their independence throughout the year.

In evaluating KPMG Channel Islands Limited the Committee completed its assessment of the external auditor for the financial period under review. It has satisfied itself as to their qualifications and expertise and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The audit engagement partner, Neale Jehan, has served four years in this position.

The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

#### Robert Sinclair

Chairman of the Audit and Risk Committee  
27 June 2016



# PROPERTY VALUATION COMMITTEE REPORT

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The Property Valuation Committee is chaired by Roger Lewis. The other members of the Committee are Nicholas Thompson, Robert Sinclair and Vic Holmes.



## TERMS OF REFERENCE

The Committee shall review the quarterly valuation reports produced by the independent valuers before their submission to the Board, looking in particular at:

- Significant adjustments from previous quarters;
- Individual property valuations;
- Commentary from the Investment Manager;
- Significant issues that should be raised with the Investment Manager;
- Material and unexplained movements in the Company's net asset value;
- Compliance with applicable standards and guidelines;
- Reviewing findings or recommendations of the valuers; and
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate.

## ACTIVITY

The Committee met four times during the year ended 31 March 2016. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

- Property market conditions and trends;
- Movements compared to previous quarters;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Committee was satisfied with the valuation process throughout the year.

## APPOINTMENT OF VALUER

CBRE Limited was appointed as sole external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter, the results of which are incorporated into the Group's half year and annual financial statements, and the quarterly net asset statements.

# CBRE

The Directors  
Picton Property Income Limited  
PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 3QL

27 June 2016

Dear Sirs

## PICTON PROPERTY PORTFOLIO — VALUATION AS AT 31 MARCH 2016

In accordance with the terms of our appointment as External Valuers to Picton Property Income Limited, we have valued the freehold and leasehold properties in which the Fund has an interest as at 31 March 2016, for accounting purposes. Our valuations have been prepared on the basis of 'Fair Value' in accordance with the RICS Valuation – Professional Standards, January 2014. We confirm that the "Fair Value" reported above, for the purpose of financial reporting under International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Practice (UK GAAP), is effectively the same as "Market Value".

On the basis, assumptions, terms and conditions as set out within our Valuation Report dated 31 March 2016, we are of the opinion that the aggregate values of the properties we value in the Picton investment property portfolio, as at 31 March 2016, are £654,605,000 (SIX HUNDRED FIFTY FOUR MILLION SIX HUNDRED AND FIVE THOUSAND POUNDS), exclusive of VAT.

Our opinion of Market Value was derived using comparable recent market transactions on arm's length terms.

The total fees, including the fee for this assignment, earned by CBRE Ltd (or other companies forming part of the same group of companies within the UK) from the Addressee (or other companies forming part of the same group of companies) is less than 5.0% of the total UK revenues.

This letter is for the use only of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Yours faithfully

**Nick Knight MRICS**

Executive Director  
RICS Registered Valuer  
For and on behalf of CBRE Limited



www.cbre.co.uk  
Registered in England No 3536032 Registered Office St Martin's Court 10 Paternoster Row London EC4M 6HP  
CBRE Limited is regulated by the RICS and is an appointed representative of CBRE Indirect Investments Service Limited  
which is authorised and regulated by the Financial Conduct Authority.



# REMUNERATION REPORT

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The Remuneration Committee is chaired by Vic Holmes. The other members of the Committee are Nicholas Thompson, Roger Lewis and Robert Sinclair.



## TERMS OF REFERENCE

The Committee will consider the following matters:

- Appointment of, and setting the terms of reference for, any remuneration consultants;
- Setting and reviewing remuneration levels for the Directors, within the limit set by the Company's Articles of Association;
- Recommending remuneration policies to the Board for Directors and senior management of Picton Capital Limited; and
- Reviewing remuneration trends across the sector.

## ACTIVITY

The Committee met twice during the year ended 31 March 2016 and considered the following matters:

- Annual remuneration review and Long Term Incentive Plan awards for Picton Capital Limited employees;
- Benchmark market levels of salary and benefits applicable to Picton Capital employees;
- The impact of changes in UK pensions legislation to the Group; and
- Consideration of a new target based long term bonus scheme.

## REMUNERATION POLICY

The objective of the Group's remuneration policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

The Group aims to provide a remuneration package which will retain Directors and management who possess the skills and experience necessary to manage the Group and maximise shareholder value on a long-term basis. The remuneration policy aims to incentivise management by rewarding performance through enhanced shareholder value.

Directors receive an annual fee as set out on page 67. The independent Directors will not receive share options or other performance related elements.

The Committee has determined the remuneration policy for the management and staff of Picton Capital Limited following independent advice from external advisers.

## TERMS OF EMPLOYMENT

The terms of appointment of the independent Directors are documented in letters of appointment. They have a six month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The independent Directors have no service contracts or interests in any material contracts with the Group.



## DIRECTORS' FEES

All of the Directors of the Company are non-executive. The fees of the independent Directors are recommended by the Board. Michael Morris does not receive a fee as a Director of the Company but is remunerated in his capacity as Chief Executive of Picton Capital Limited. The level of Directors' fees was independently reviewed in September 2014 by Deloitte LLP against a benchmark group of similar companies. The new rates became effective on 1 January 2015, and will next be reviewed after three years.

	Annual rate £
Chairman	82,500
Chairman of the Audit and Risk Committee	43,000
Chairman of the Property Valuation Committee	40,000
Chairman of the Remuneration Committee	40,000
Director	36,000
	241,500

The total fees earned by each Director for the year ended 31 March 2016 were as follows:

	31 March 2016 £	31 March 2015 £
Nicholas Thompson	82,500	67,875
Robert Sinclair	43,000	39,250
Trevor Ash	18,000	33,750
Roger Lewis	40,000	36,250
Vic Holmes	40,000	34,750
Michael Morris	–	–
	223,500	211,875

No additional fees were earned above the annual expected time commitment for the year ended 31 March 2016. The Company's Articles set an annual limit of £300,000 for Directors' remuneration.

## PICTON CAPITAL LIMITED REMUNERATION

The Group's Investment Manager employed 13 staff, including maternity cover, as at 31 March 2016 (2015: 12 staff).

During the year the Committee considered the impact of changes in UK pensions legislation and determined that the Directors of Picton Capital Limited would receive a salary supplement rather than any company pension contributions. The level of salary supplement was set such that there was no additional cost to the Group.

The Committee has reviewed the variable element of Picton Capital Limited remuneration and have proposed that a new target based long term bonus scheme should be implemented during 2016, to bring the Company's remuneration into line with similar internally managed companies. It is envisaged that such a scheme will be based upon a small number of long term performance metrics measured over a three year timescale. Awards will be made annually and granted in shares, subject to minimum threshold performance conditions being achieved.

The policy and components of current remuneration set by the Committee in respect of Picton Capital Limited Directors and staff are as follows:

### BASE SALARY

Base salaries are based on market data provided by the Company's independent advisers. Base salaries are reviewed annually on 1 April.

### PENSION

The Group makes contributions for eligible employees into a Group personal pension plan to a maximum of 10% of base salary. Further contributions to a maximum of 5% will be paid by the Group if matched by additional voluntary contributions by the employee. From 1 April 2016 the Directors of Picton Capital Limited receive a salary supplement of 15% of base salary in lieu of company pension contributions.

### ANNUAL BONUS

A discretionary annual bonus may be awarded to recognise individual performance. An award will take into account three factors: the underlying performance of the Group, the underlying real estate return and the individual's performance. Bonus payments are not pensionable. An element of any award will be made in units in the Deferred Bonus Scheme (previously called the Long Term Incentive Plan).

### DEFERRED BONUS SCHEME

A share-based deferred bonus scheme has been established that aligns remuneration with that of shareholders. Any award under the scheme is linked to both share price movement and dividend distributions. Awards will normally vest in either two or three years.

### OTHER BENEFITS

These include private medical insurance and life cover.

The above components do not include the proposed new long term bonus plan, which will be an additional element in future years.

# REMUNERATION REPORT

In considering the salary and bonus review for 2016, the Committee received an independent benchmarking review, which considered market salaries and benefits for each member of the Picton Capital team. The Committee also considered the key performance indicators for the year in relation to individual and team objectives set at the start of the year. In conclusion, the Committee determined that there would be an average increase of 6.0% in base salaries from 1 April 2016 (2015: 12.7%) and an overall bonus pool of 94% of base salaries (2015: 99%).

For the year ended 31 March 2016, the Committee agreed that bonuses awarded to Picton Capital staff would total £458,000 payable on 31 March 2016 (2015: £379,000) and £519,000 in Deferred Bonus Scheme awards (2015: £516,000). The Deferred Bonus Scheme awards were made at the prevailing share price, and equate to 744,000 units, of which 372,000 units vest on 31 March 2018 and 372,000 units vest on 31 March 2019. The cost to the Group of awards made is spread over the vesting periods in accordance with its accounting policy. The accrued cost at 31 March 2016 was £971,000 (2015: £635,000). A summary of the awards made to Picton Capital Limited staff is set out in Note 7 to the financial statements.

## SHARE OWNERSHIP

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors, although in the case of Picton Capital Limited staff, alignment is also achieved through awards under the Deferred Bonus Scheme.

The numbers of shares beneficially held by each Director and senior management (including spouses), as at 31 March 2016, were as follows:

Directors	31 March 2016	31 March 2015
Nicholas Thompson *	200,000	184,836
Robert Sinclair	15,000	15,000
Roger Lewis	530,000	530,000
Vic Holmes	27,214	–
Michael Morris†	53,596	53,596

Senior management	31 March 2016	31 March 2015
Andrew Dewhirst	20,000	15,000
Jay Cable	9,505	9,505
Fraser D'Arcy**	8,687	–

\* Includes 81,634 shares held by Mrs Elizabeth Thompson

† Includes 28,596 shares held by Mrs Joanne Morris

\*\*Held by Mrs Rebecca D'Arcy

Mrs Elizabeth Thompson additionally holds 45,249 zero dividend preference shares issued by Picton ZDP Limited.

The directors of Picton Capital Limited (Michael Morris and senior management, as above) also hold units in the Deferred Bonus Scheme. At 31 March 2016 the number of units that had been awarded to Picton Capital Limited Directors and yet to vest was 1,583,685 (2015: 1,457,640).

## Vic Holmes

Chairman of the Remuneration Committee  
27 June 2016

# DIRECTORS' REPORT

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2016.

The Company is a closed ended investment company and is registered under the provisions of the Companies (Guernsey) Law, 2008.

## PRINCIPAL ACTIVITY

The principal activity of the Group is property investment with the objective of providing shareholders with an attractive level of income together with the potential for capital growth, by investing in a diversified UK commercial property portfolio.

With effect from 29 October 2008, the Company became regulated under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Under this regulation, the Company was deemed to be authorised by the Guernsey Financial Services Commission.

## RESULTS AND DIVIDENDS

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in Note 11 to the consolidated financial statements, the Company has paid four interim dividends of 0.825 pence per share, making a total dividend for the year ended 31 March 2016 of 3.3 pence per share (2015: 3.0 pence).

## DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company who served throughout the year are set out on page 107.

The Directors' interests in the shares of the Company as at 31 March 2016 are set out in the Remuneration Report.

## LISTINGS

The Company is listed on the main market of the London Stock Exchange.

## SHARE CAPITAL

The issued share capital of the Company as at 31 March 2016 was 540,053,660 (2015: 540,053,660) ordinary shares of no par value.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of this authority from shareholders. Any buy-back of ordinary shares is, and will be, made subject to Guernsey law, and the making and timing of any buy-backs are at the absolute discretion of the Board.

## STATEMENT OF GOING CONCERN

The Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report. The financial position of the Group, including its liquidity position, borrowing facilities and debt maturity profile, is set out in the Financial Review and in the consolidated financial statements. The Board is satisfied that the Group has sufficient financial resources available for it to meet the liability arising from the maturity of the zero dividend preference shares in October 2016.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

## VIABILITY ASSESSMENT AND STATEMENT

The 2014 UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment.

The Board conducted this review over a five year timescale, considered to be the most appropriate for long-term investment in commercial property. The assessment has been undertaken, taking into account the principal risks and uncertainties faced by the Group which could impact its investment strategy, future performance, loan covenants and liquidity.

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and the resultant impact on the valuation of the property portfolio, the level of rental income receivable and the subsequent effect on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's property assets, the existence of long-term borrowings, the effects of significant falls in valuations and rental income on the ability to remain within financial covenants, maintain dividend payments and retain investors. These matters were assessed over the period to 31 March 2021, and will continue to be assessed over five year rolling periods.



# DIRECTORS' REPORT

In the ordinary course of business the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model uses prudent assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model has been adjusted to cover a five year period and is stress tested with a number of scenarios. These include significant falls in capital values (in line with previous market conditions), pessimistic assumptions around lease breaks and expiries, increased void periods and incentives, and increases in tenant defaults. The Directors carried out their assessment prior to the EU referendum. However, they consider that the stress testing performed was sufficiently robust that even under extreme conditions the Company remains viable.

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 March 2021.

## SUBSTANTIAL SHAREHOLDINGS

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 9 June 2016.

	% of issued share capital
Investec Wealth & Investment Limited	17.9
Canaccord Genuity Wealth Management	5.8
Blackrock Inc.	5.1
Premier Fund Managers Limited	5.1
Alliance Trust Savings Limited	4.1
Thames River Capital	3.0

## DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## AUDITOR

KPMG Channel Islands Limited (the "Auditor") has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its reappointment will be submitted at the Annual General Meeting.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards, as issued by the IASB, and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

## DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors confirm that to the best of their knowledge and belief the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

## DIRECTORS' RESPONSIBILITY STATEMENT UNDER THE DISCLOSURE AND TRANSPARENCY RULES 4.1.12

The Directors confirm to the best of their knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards, as issued by the IASB, 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 development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

**Robert Sinclair**  
27 June 2016



# FINANCIAL STATEMENTS

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# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF PICTON PROPERTY INCOME LIMITED

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### OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

#### OPINION ON FINANCIAL STATEMENTS

We have audited the consolidated financial statements (the "financial statements") of Picton Property Income Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of its total comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

#### OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

#### VALUATION OF INVESTMENT PROPERTY (£646 MILLION)

Refer to page 61 of the Report of the Audit and Risk Committee, Note 2 significant accounting policies and Note 14 investment property disclosures

##### • THE RISK

The Group's investment property portfolio accounted for 94% of the Group's total assets as at 31 March 2016. The fair value of the investment property at 31 March 2016 was assessed by the Board of Directors based on independent valuations prepared by the Group's external property valuer. As highlighted in the Audit and Risk Committee Report, the valuation of the Group's investment property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgement and subjective assumptions, is a significant area of our audit.

##### • OUR RESPONSE

Our audit procedures with respect to the valuation of the Group's investment property included, but were not limited to, testing the design, implementation and operating effectiveness of the relevant controls, involvement of our own Real Estate specialist, to examine the valuations prepared by the external property valuer and to evaluate the appropriateness of the valuation methodologies and assumptions used, including reviewing general market information and undertaking discussions on key findings with the external valuer.

We challenged the external valuer's assumptions and data by comparing key inputs to the valuation, such as current rental income and initial and equivalent yields, for consistency with other audit findings.

We also considered the Group's disclosures in relation to the use of estimates and judgements regarding fair value of investment property and the Group's valuation policies adopted and fair value disclosures in Note 2 and Note 14 for compliance with International Financial Reporting Standards.

#### OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying whether a misstatement or omission is material and to do so the auditor identifies a monetary amount as "materiality for the financial statements as a whole".

The materiality for the financial statements as a whole was set at £6.5 million. This has been calculated using a benchmark of the Group's total asset value (of which it represents approximately 1%) which we believe is the most appropriate benchmark as investment property values are considered as the prime driver of returns to the shareholders and the main focus of users of the financial statements.

We agreed with the Audit and Risk Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £322,850 in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation and total Group assets.



Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions, it is not guaranteed to do so. Rather, we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### DISCLOSURES OF PRINCIPAL RISKS

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

- the Directors' Viability Assessment and Statement on page 69, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the five years to 31 March 2021; or

- the disclosures in Note 2 of the financial statements concerning the use of the going concern basis of accounting.

#### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under International Standards on Auditing ["ISAs"] (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 members to assess the Group's performance, business model and strategy; or
- the Audit and Risk Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations which to the best of our knowledge and belief are necessary for the purpose of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 53 to 70 relating to the Company's compliance with the 11 provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## SCOPE OF REPORT AND RESPONSIBILITIES

### THE PURPOSE OF THIS REPORT AND RESTRICTIONS ON ITS USE BY PERSONS OTHER THAN THE COMPANY'S MEMBERS AS A BODY

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. 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.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

#### Neale D Jehan

For and on behalf of  
KPMG Channel Islands Limited

Chartered Accountants  
and Recognised Auditors

Glategny Court, Glategny Esplanade  
St Peter Port  
Guernsey GY1 1WR  
27 June 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	Income £000	Capital £000	2016 Total £000	2015 Total £000
<b>Income</b>					
Revenue from properties	3	45,923	–	<b>45,923</b>	39,662
Property expenses	4	(10,001)	–	<b>(10,001)</b>	(9,320)
<b>Net property income</b>		35,922	–	<b>35,922</b>	30,342
<b>Expenses</b>					
Management expenses	6	(2,901)	–	<b>(2,901)</b>	(2,591)
Other operating expenses	8	(1,510)	–	<b>(1,510)</b>	(1,194)
<b>Total operating expenses</b>		(4,411)	–	<b>(4,411)</b>	(3,785)
<b>Operating profit before movement on investments</b>		31,511	–	<b>31,511</b>	26,557
<b>Investments</b>					
Profit on disposal of investment properties	14	–	799	<b>799</b>	412
Investment property valuation movements	14	–	44,171	<b>44,171</b>	53,163
<b>Total profit on investments</b>		–	44,970	<b>44,970</b>	53,575
<b>Operating profit</b>		31,511	44,970	<b>76,481</b>	80,132
<b>Financing</b>					
Interest received		144	–	<b>144</b>	184
Interest paid	9	(11,561)	–	<b>(11,561)</b>	(11,114)
<b>Total finance costs</b>		(11,417)	–	<b>(11,417)</b>	(10,930)
<b>Profit before tax</b>		20,094	44,970	<b>65,064</b>	69,202
Tax	10	(216)	–	<b>(216)</b>	(347)
<b>Total comprehensive income</b>		19,878	44,970	<b>64,848</b>	68,855
<b>Earnings per share</b>					
Basic and diluted	12	3.7p	8.3p	<b>12.0p</b>	15.4p

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income. The supplementary income return and capital return columns are prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	Share Capital £000	Retained Earnings £000	Total £000
<b>Balance as at 31 March 2014</b>		57,192	156,904	214,096
Issue of ordinary shares		102,176	–	102,176
Issue costs of shares		(2,055)	–	(2,055)
Profit for the year		–	68,855	68,855
Dividends paid	11	–	(13,102)	(13,102)
<b>Balance as at 31 March 2015</b>		157,313	212,657	369,970
Issue costs of shares	20	136	–	136
Profit for the year		–	64,848	64,848
Dividends paid	11	–	(17,822)	(17,822)
<b>Balance as at 31 March 2016</b>		<b>157,449</b>	<b>259,683</b>	<b>417,132</b>

Notes 1 to 27 form part of these consolidated financial statements.



# CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2016

	Notes	2016 £000	2015 £000
<b>Non-current assets</b>			
Investment properties	14	646,018	532,926
Tangible assets		57	101
Accounts receivable	15	3,331	3,871
<b>Total non-current assets</b>		<b>649,406</b>	<b>536,898</b>
<b>Current assets</b>			
Accounts receivable	15	14,649	14,019
Cash and cash equivalents	16	22,759	70,092
<b>Total current assets</b>		<b>37,408</b>	<b>84,111</b>
<b>Total assets</b>		<b>686,814</b>	<b>621,009</b>
<b>Current liabilities</b>			
Accounts payable and accruals	17	(18,321)	(16,365)
Loans and borrowings	18	(29,091)	(1,012)
Obligations under finance leases	22	(109)	(103)
<b>Total current liabilities</b>		<b>(47,521)</b>	<b>(17,480)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	18	(220,444)	(231,834)
Obligations under finance leases	22	(1,717)	(1,725)
<b>Total non-current liabilities</b>		<b>(222,161)</b>	<b>(233,559)</b>
<b>Total liabilities</b>		<b>(269,682)</b>	<b>(251,039)</b>
<b>Net assets</b>		<b>417,132</b>	<b>369,970</b>
<b>Equity</b>			
Share capital	20	157,449	157,313
Retained earnings		259,683	212,657
<b>Total equity</b>		<b>417,132</b>	<b>369,970</b>
<b>Net asset value per share</b>	23	<b>77p</b>	69p

These consolidated financial statements were approved by the Board of Directors on 27 June 2016 and signed on its behalf by:

**Robert Sinclair**

Director  
27 June 2016

Notes 1 to 27 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 £000	2015 £000
<b>Operating activities</b>			
Operating profit		76,481	80,132
Adjustments for non-cash items	21	(43,198)	(55,427)
Interest received		144	184
Interest paid		(8,980)	(8,879)
Tax paid		(426)	(369)
<b>Cash inflows from operating activities</b>		<b>24,021</b>	<b>15,641</b>
<b>Investing activities</b>			
Capital expenditure on investment properties	14	(4,403)	(4,070)
Acquisition of investment properties	14	(73,084)	(62,059)
Disposal of investment properties	14	9,365	4,410
Purchase of tangible assets		(1)	(10)
<b>Cash outflows from investing activities</b>		<b>(68,123)</b>	<b>(61,729)</b>
<b>Financing activities</b>			
Issue of ordinary shares		–	102,176
Issue costs of ordinary shares		–	(2,055)
Borrowings repaid		(1,011)	(2,936)
Borrowings drawn		15,800	–
Financing costs		(198)	(255)
Dividends paid	11	(17,822)	(13,102)
<b>Cash (outflows)/inflows from financing activities</b>		<b>(3,231)</b>	<b>83,828</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(47,333)</b>	<b>37,740</b>
Cash and cash equivalents at beginning of year		70,092	32,352
<b>Cash and cash equivalents at end of year</b>	16	<b>22,759</b>	<b>70,092</b>

Notes 1 to 27 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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## 1. GENERAL INFORMATION

Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was registered on 15 September 2005 as a closed ended Guernsey investment company. The consolidated financial statements are prepared for the year ended 31 March 2016 with comparatives for the year ended 31 March 2015.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

The financial statements have been prepared on a going concern basis and adopt the historical cost basis, except for the revaluation of investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by IASB and are in compliance with the Companies (Guernsey) Law, 2008.

The Board is satisfied that the Group has sufficient financial resources available to it to meet the liability arising from the maturity of the zero dividend preference shares in October 2016. The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the financial statements.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand, except when otherwise indicated.

### NEW OR AMENDED STANDARDS ISSUED

The accounting policies adopted are consistent with those of the previous financial period, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

- Annual Improvements to IFRSs (2010–2012 Cycle)
- Annual Improvements to IFRSs (2011–2013 Cycle)
- IAS 19: Employee Benefits – Defined Benefit Plans: Employee Contribution

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective for the financial year ended 31 March 2016 and have not been adopted early:

- IFRS 9: Financial Instruments
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- IFRS 16: Leases
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16: Property Plant and Equipment
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 28: Investments in Associates and Joint Ventures
- Amendments to IAS 38: Intangible Assets
- Amendments to IAS 41: Agriculture
- Annual Improvements to IFRSs (2014)

The Directors are in the process of assessing the full impact of the standards listed above but do not expect them to have a material impact on the Group's financial statements in the year of initial application, other than on presentation and disclosure.

### USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The critical estimate and assumption relate to the investment property valuations applied by the Group's independent valuer and this is described in more detail in Note 14. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements, where made, are disclosed within the relevant section of the financial statements in which such judgements have been applied.



Key judgements relate to the treatment of business combinations, lease classifications, or employee benefits where different accounting policies could be applied. These are described in more detail in the accounting policy notes below, or in the relevant notes to the financial statements.

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company at the reporting date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. These financial statements include the results of the subsidiaries disclosed in Note 13. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **BUSINESS COMBINATIONS**

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary;
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary; and
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities.

Goodwill on business combinations is measured as the fair value of the consideration transferred less the net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, this is recognised immediately in the Consolidated Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### **PRESENTATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

#### **FAIR VALUE HIERARCHY**

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

#### **INVESTMENT PROPERTIES**

Freehold property held by the Group to earn income or for capital appreciation or both is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under finance leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. The Group ensures the use of suitable qualified external valuers valuing the investment properties held by the Group.

The fair value of investment property generally involves consideration of:

- Market evidence on comparable transactions for similar properties;
- The actual current market for that type of property in that type of location at the reporting date and current market expectations;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Rental income from leases and market expectations regarding possible future lease terms;
- Hypothetical sellers and buyers, who are reasonably informed about the current market and who are motivated, but not compelled, to transact in that market on an arm's length basis; and
- Investor expectations on matters such as future enhancement of rental income or market conditions.

Gains and losses arising from changes in fair value are included in the Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

An item of investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statement of Comprehensive Income in the year the item is derecognised. Investment properties are not depreciated.

Realised and unrealised gains on investment properties have been presented as capital items within the Consolidated Statement of Comprehensive Income.

The loans have a first ranking mortgage over the majority of properties; see Note 14.

### LEASES

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Consolidated Statement of Comprehensive Income.

An operating lease is a lease other than a finance lease. Lease income is recognised in income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The financial statements reflect the requirements of SIC 15 'Operating Leases – Incentives' to the extent that they are material. Premiums received on the surrender of leases are recorded as income immediately if there are no relevant conditions attached to the surrender.

### CASH AND CASH EQUIVALENTS

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities in three months or less and that are subject to an insignificant risk of change in value.

### INCOME AND EXPENSES

Income and expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the lease end. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

The income charged to occupiers for property service charges and the costs associated with such service charges are shown separately in Notes 3 and 4 to reflect that, notwithstanding this money is held on behalf of occupiers, the ultimate risk for paying and recovering these costs rests with the property owner.

### EMPLOYEE BENEFITS

#### DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

#### SHORT-TERM BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### SHARE-BASED PAYMENTS

The fair value of the amounts payable to employees in respect of the Deferred Bonus Scheme, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in the Consolidated Statement of Comprehensive Income.

#### DIVIDENDS

Dividends are recognised in the period in which they are declared.

#### TRADE RECEIVABLES

Trade receivables are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### LOANS AND BORROWINGS

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

#### OTHER ASSETS AND LIABILITIES

Other assets and liabilities, including trade creditors and accruals, other debtors and creditors, and deferred rental income, are not interest bearing and are stated at their nominal value.

#### SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

#### TAXATION

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom. Accordingly the Group will not be liable to United Kingdom taxation on its income or capital gains arising in the United Kingdom, other than certain income deriving from a United Kingdom source.

The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2016.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider that the value of the property portfolio is likely to be realised by sale rather than use over time, and that no charge to Guernsey or United Kingdom taxation will arise on capital gains, no provision has been made for deferred tax on valuation uplifts.

#### PRINCIPLES FOR THE CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Consolidated Statement of Comprehensive Income and movements in the Consolidated Balance Sheet which have not resulted in cash income or expenditure in the relating period.

The cash amounts in the Consolidated Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction. Dividends that have been paid are included in the cash flow from financing activities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 3. REVENUE FROM PROPERTIES

	2016 £000	2015 £000
Rents receivable (adjusted for lease incentives)	39,663	34,088
Surrender premiums	339	464
Dilapidation receipts	108	528
Other income	660	71
Service charge income	5,153	4,511
	<b>45,923</b>	<b>39,662</b>

Rents receivable includes lease incentives recognised of £1.2 million (2015: £1.2 million).

## 4. PROPERTY EXPENSES

	2016 £000	2015 £000
Property operating expenses	3,308	2,861
Property void costs	1,540	1,948
Recoverable service charge costs	5,153	4,511
	<b>10,001</b>	<b>9,320</b>

## 5. OPERATING SEGMENTS

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment restrictions and overall objectives. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Balance Sheet, assuming dividends are reinvested, the key performance measure is that prepared under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board has delegated the day-to-day implementation of this strategy to the Investment Manager but retains responsibility to ensure that adequate resources of the Company are directed in accordance with its decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

The Investment Manager has been given authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and geared investment position, manages the investment of the Company's short-term liquid resources, and advises on the use and management of derivatives and hedging by the Company. Whilst the Investment Manager may make operational decisions on a day-to-day basis regarding the property investments, any changes to the investment strategy or allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager.

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Investment Management Agreement, which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 58 commercial properties, which are in the industrial, office, retail, retail warehouse, and leisure sectors.

## 6. MANAGEMENT EXPENSES

	2016 £000	2015 £000
Staff costs	2,328	2,019
Other management costs	573	572
	<b>2,901</b>	<b>2,591</b>

The Investment Manager for the Group is Picton Capital Limited, a wholly owned subsidiary company. The above staff and other management costs are those incurred by Picton Capital Limited during the year.

## 7. STAFF COSTS

	2016 £000	2015 £000
Wages and salaries	1,475	1,258
Social security costs	204	175
Other pension costs	150	125
Share-based payments	499	461
	<b>2,328</b>	<b>2,019</b>

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in a share-based Deferred Bonus Scheme, previously called the Long Term Incentive Plan. Awards made under the Deferred Bonus Scheme are linked to the Company's share price and dividends paid, and normally vest after periods of two or three years. Employees must still be in the Group's employment to receive payment on the vesting date. During the year the Group made awards of 744,444 units (2015: 719,512 units), of which 372,222 units vest on 31 March 2018 and 372,222 units vest on 31 March 2019.

The table below summarises the awards made under the Deferred Bonus Scheme to Picton Capital Limited's staff. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units which vested at 31 March 2016 and were not deferred were paid out subsequent to the year end at a cost of £391,000 (2015: £147,000).

Vesting Date	Units at 31 March 2014	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2015	Units granted in the year	Units redeemed in the year	Units at 31 March 2016
31 March 2014	114,070	–	–	(104,100)	9,970	–	(7,050)	2,920
31 March 2015	356,695	–	(2,480)	(186,165)	168,050	–	(13,050)	155,000
31 March 2016	583,293	–	(3,232)	–	580,061	–	(502,385)	77,676
31 March 2017	310,793	359,756	(1,982)	–	668,567	–	–	668,567
31 March 2018	–	359,756	–	–	359,756	372,222	–	731,978
31 March 2019	–	–	–	–	–	372,222	–	372,222
	<b>1,364,851</b>	<b>719,512</b>	<b>(7,694)</b>	<b>(290,265)</b>	<b>1,786,404</b>	<b>744,444</b>	<b>(522,485)</b>	<b>2,008,363</b>

The emoluments of the Directors are set out in the Remuneration Report.

The Group employed 13 members of staff at 31 March 2016 (2015: 12). The average number of people employed by the Group for the year ended 31 March 2016 was 13 (2015: 12).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 8. OTHER OPERATING EXPENSES

	2016 £000	2015 £000
Valuation expenses	108	87
Administrator fees	201	192
Auditor's remuneration	142	163
Directors' fees	224	212
Professional fees	505	382
Other expenses	330	158
	<b>1,510</b>	<b>1,194</b>
Auditor's remuneration comprises:	2016 £000	2015 £000
<b>Audit fees:</b>		
Audit of Group financial statements	56	56
Audit of subsidiaries' financial statements	48	63
<b>Audit related fees:</b>		
Review of half year financial statements	19	19
	<b>123</b>	<b>138</b>
<b>Non-audit fees:</b>		
Additional controls testing	15	14
FCA CASS audit	4	4
Tax compliance	–	7
	<b>19</b>	<b>25</b>
	<b>142</b>	<b>163</b>

## 9. INTEREST PAID

	2016 £000	2015 £000
Interest payable on loans at amortised cost	8,751	8,758
Capital additions on zero dividend preference shares	1,900	1,766
Interest on obligations under finance leases	115	115
Non-utilisation fees	169	–
Amortisation of finance costs	626	475
	<b>11,561</b>	<b>11,114</b>

The loan arrangement costs incurred to 31 March 2016 are £5,728,000 (2015: £5,728,000). These are amortised over the duration of the loans with £626,000 written off in the year ended 31 March 2016 (2015: £475,000).



## 10. TAX

The charge for the year is:

	2016 £000	2015 £000
Current UK income tax	235	250
Income tax adjustment to provision for prior year	(137)	(54)
	98	196
UK corporation tax	118	151
	118	151
<b>Total tax charge</b>	<b>216</b>	<b>347</b>

A reconciliation of the income tax charge applicable to the results at the statutory income tax rate to the charge for the year is as follows:

	2016 £000	2015 £000
Profit before taxation	65,064	69,202
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	13,013	13,840
Less:		
Revaluation gains not taxable	(8,994)	(10,715)
Income not taxable, including interest receivable	(215)	(138)
Expenditure not allowed for income tax purposes	696	584
Losses utilised	(129)	(102)
Capital allowances and other allowable deductions	(4,136)	(3,334)
Losses carried forward to future years	–	115
Adjustment to provision for prior years	(137)	(54)
<b>Total income tax charge</b>	<b>98</b>	<b>196</b>

For the year ended 31 March 2016 there was an income tax liability of £98,000 in respect of the Group (2015: £196,000) and corporation tax of £118,000 (2015: £151,000).

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed fee of £1,200 per company per year is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom.

The Group is subject to United Kingdom taxation on rental income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The treatment of such costs and expenses in estimating the overall tax liability for the Group requires judgement and assumptions regarding their deductibility. The Directors have considered comparable market evidence and practice in determining the extent to which these are allowable. This is shown above as Current UK income tax. UK corporation tax relates to the corporation tax arising in respect of Picton Capital Limited.

No deferred tax asset has been recognised from unused tax losses which total £4.6 million (2015: £4.8 million) as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Directors consider the probability of realising the benefit of these losses, except to an immaterial extent, to be low.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 11. DIVIDENDS

	2016 £000	2015 £000
<b>Declared and paid:</b>		
Interim dividend for the period ended 31 March 2014: 0.75 pence	–	2,849
Interim dividend for the period ended 30 June 2014: 0.75 pence	–	3,294
Interim dividend for the period ended 30 September 2014: 0.75 pence	–	3,294
Interim dividend for the period ended 31 December 2014: 0.75 pence	–	3,665
Interim dividend for the period ended 31 March 2015: 0.825 pence	4,455	–
Interim dividend for the period ended 30 June 2015: 0.825 pence	4,455	–
Interim dividend for the period ended 30 September 2015: 0.825 pence	4,456	–
Interim dividend for the period ended 31 December 2015: 0.825 pence	4,456	–
	<b>17,822</b>	<b>13,102</b>

The interim dividend of 0.825 pence per ordinary share in respect of the period ended 31 March 2016 has not been recognised as a liability as it was declared after the year end. A dividend of £4,455,000 was paid on 31 May 2016.

## 12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	2016	2015
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	<b>64,848</b>	68,855
Weighted average number of ordinary shares for basic and diluted profit per share	<b>540,053,660</b>	445,259,094

## 13. INVESTMENTS IN SUBSIDIARIES

The Company had the following principal subsidiaries as at 31 March 2016:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton (UK) Listed Real Estate Limited	Guernsey	100%
Merbrook Business Property Unit Trust*	Jersey	100%
Merbrook Prime Retail Property Unit Trust*	Jersey	100%
Merbrook Bristol Property Unit Trust*	Jersey	100%
Picton Capital Limited	England & Wales	100%
Picton ZDP Limited	Guernsey	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%
Picton Finance Limited	Guernsey	100%

\* (the "JPUTs")

The results of the above entities are consolidated within the Group financial statements.

Picton UK Real Estate (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the "GPU"). The GPU holds a 99.9% interest in both Picton No 2 Limited Partnership and Picton No 3 Limited Partnership.

Picton No 3 Limited Partnership owns all of the units in the JPUTs, which are each registered as Jersey Unit Trusts. During the year Merbrook Swindon Property Unit Trust was wound up following the disposal of its property assets. The Directors have approved the winding up of the three remaining JPUTs once their assets and liabilities have been distributed to Picton No 3 Limited Partnership.

## 14. INVESTMENT PROPERTIES

The following table provides a reconciliation of the opening and closing amounts of investment properties classified as Level 3 recorded at fair value.

	2016 £000	2015 £000
Fair value at start of year	532,926	417,632
Acquisitions	73,084	62,059
Capital expenditure on investment properties	4,403	4,070
Disposals	(9,365)	(4,410)
Realised gains on disposal	799	438
Realised losses on disposal	–	(26)
Unrealised gains on investment properties	51,125	60,094
Unrealised losses on investment properties	(6,954)	(6,931)
<b>Fair value at the end of the year</b>	<b>646,018</b>	<b>532,926</b>
<b>Historic cost at the end of the year</b>	<b>685,499</b>	<b>628,645</b>

The fair value of investment properties reconciles to the appraised value as follows:

	2016 £000	2015 £000
Appraised value	654,605	540,905
Valuation of assets held under finance leases	1,731	1,155
Lease incentives held as debtors	(10,318)	(9,134)
<b>Fair value at the end of the year</b>	<b>646,018</b>	<b>532,926</b>

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2016 and 31 March 2015 on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2014). The total fees earned by CBRE Limited from the Group are less than 5% of their total UK revenue.

The fair value of the Group's investment properties has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable market transactions on an arm's length basis.

The Group's investment properties are valued quarterly by independent valuers. The valuations are based on:

- Information provided by the Investment Manager including rents, lease terms, revenue and capital expenditure. Such information is derived from the Investment Manager's financial and property systems and is subject to the Group's overall control environment.
- Valuation models used by the valuers, including market related assumptions based on their professional judgement and market observation.

The assumptions and valuation models used by the valuers, and supporting information, are reviewed by the Investment Manager and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including considering current market trends and conditions, and changes from previous quarters. The Directors will also consider where circumstances at specific investment properties, such as alternative uses and issues with occupational tenants, are appropriately reflected in the valuations. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

As at 31 March 2016 and 31 March 2015 all of the Group's properties are Level 3 in the fair value hierarchy as it involves use of significant inputs. There were no transfers between levels during the year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 14. INVESTMENT PROPERTIES (CONTINUED)

Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2016			2015		
	Offices	Industrial	Retail and Leisure	Offices	Industrial	Retail and Leisure
Appraised value (£000)	252,085	236,635	165,885	173,420	217,745	149,740
Area (sq ft, 000s)	999	2,745	831	800	2,736	732
<b>Range of unobservable inputs:</b>						
Gross ERV (sq ft per annum)						
— range	£7.57–£56.35	£3.15–£16.78	£5.24–£80.36	£7.57–£50.99	£2.98–£15.31	£5.74–£81.04
— weighted average	£29.38	£7.33	£28.75	£26.83	£6.94	£30.53
Net initial yield						
— range	1.04%–18.75%	-4.75%–9.64%	3.23%–12.58%	-1.09%–25.47%	0%–10.55%	2.65%–14.47%
— weighted average	5.23%	5.61%	6.22%	5.36%	6.18%	6.00%
Reversionary yield						
— range	5.05%–15.94%	5.30%–11.87%	4.25%–9.27%	5.07%–18.02%	5.68%–13.15%	4.08%–18.46%
— weighted average	7.12%	6.60%	5.78%	7.64%	6.87%	6.39%
True equivalent yield						
— range	5.05%–14.73%	5.48%–10.94%	4.38%–9.53%	0%–13.13%	5.80%–12.59%	4.50%–20.05%
— weighted average	6.98%	6.67%	6.51%	7.15%	7.03%	6.93%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	2016 Impact on valuation	2015 Impact on valuation
Industrial	Increase of 50 basis points	Decrease of £18.0m	Decrease of £15.7m
	Decrease of 50 basis points	Increase of £21.1m	Increase of £18.2m
Office	Increase of 50 basis points	Decrease of £19.9m	Decrease of £12.5m
	Decrease of 50 basis points	Increase of £22.0m	Increase of £14.4m
Retail and Leisure	Increase of 50 basis points	Decrease of £12.5m	Decrease of £10.5m
	Decrease of 50 basis points	Increase of £14.6m	Increase of £12.3m

## 15. ACCOUNTS RECEIVABLE

	2016 £000	2015 £000
<b>Current</b>		
Tenant debtors (net of provisions for bad debts)	3,209	3,871
Lease incentives	10,318	9,134
Other debtors	578	388
Income tax receivable	4	–
Capitalised finance costs	540	626
	14,649	14,019
<b>Non-current</b>		
Capitalised finance costs	3,331	3,871
	3,331	3,871
	17,980	17,890

Tenant debtors, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

## 16. CASH AND CASH EQUIVALENTS

	2016 £000	2015 £000
Cash at bank and in hand	20,063	16,416
Short-term deposits	2,696	53,676
	22,759	70,092

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of these assets approximate their fair value.

## 17. ACCOUNTS PAYABLE AND ACCRUALS

	2016 £000	2015 £000
Accruals	4,197	3,803
Deferred rental income	8,621	7,482
VAT liability	1,934	1,935
Income tax liability	–	206
Trade creditors	232	750
Other creditors	3,337	2,189
	18,321	16,365

## 18. LOANS AND BORROWINGS

	Maturity	2016 £000	2015 £000
<b>Current</b>			
Aviva facility	–	1,057	1,012
Zero dividend preference shares	15 October 2016	28,034	–
		29,091	1,012
<b>Non-current</b>			
Santander revolving credit facility	25 March 2018	15,800	–
Canada Life facility	20 July 2022	33,718	33,718
Canada Life facility	24 July 2027	80,000	80,000
Aviva facility	24 July 2032	90,926	91,982
Zero dividend preference shares	15 October 2016	–	26,134
		220,444	231,834
		249,535	232,846

The Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan is for a term of 15 years, with £33.7 million repayable on the tenth anniversary of drawdown. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £270.5 million (2015: £256.9 million).

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.0 million in the year (2015: £1.0 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership, Picton Property No 3 Limited and the JPUTs, valued at £229.1 million (2015: £206.4 million).

On 26 March 2015 a £26.0 million revolving credit facility was put in place with Santander Corporate & Commercial Banking for three-years. On 17 February 2016 £15.8 million was drawn down under the facility, leaving £10.2 million undrawn at year end. Interest is charged at 175 basis points over three month LIBOR and the non-utilisation fee is 70 basis points. The facility is secured over properties held by Picton (UK) REIT (SPV No 2) Limited, valued at £57.1 million (2015: £54.7 million).

The fair value of the secured loan facilities at 31 March 2016, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £243.1 million (2015: £224.9 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 18. LOANS AND BORROWINGS (CONTINUED)

The Group has 22,000,000 zero dividend preference shares ('ZDPs') in issue with a maturity date of 15 October 2016. The ZDPs accrue additional capital at a rate of 7.25% per annum, resulting in a final capital entitlement at maturity of 132.3 pence per share. The ZDPs do not receive any dividends or income distributions, and are listed on the London Stock Exchange. The ZDPs were issued by Picton ZDP Limited, a wholly owned subsidiary company.

The fair value of the zero dividend preference shares at 31 March 2016, based on the quoted market price at that date, was £28.2 million (2015: £27.7 million). The fair value of the zero dividend preference shares is classified as Level 1 under the hierarchy of fair value measurements (2015: Level 1).

There were no transfers between levels of the fair value hierarchy during the current or prior years.

The weighted average interest rate on the Group's borrowings as at 31 March 2016 was 4.43% (2015: 4.56%).

In accordance with the AIFM Directive, information in relation to the Group's leverage is required to be made available to investors. The Group's maximum and average actual leverage levels at 31 March 2016 are shown below:

	Gross method	Commitment method
Maximum limit	285%	285%
Actual	157%	160%

For the purpose of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Incorporation.

## 19. CONTINGENCIES AND CAPITAL COMMITMENTS

The Group has entered into contracts for the refurbishment of 13 properties with commitments outstanding at 31 March 2016 of approximately £3.3 million (2015: £3.2 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2016.

## 20. SHARE CAPITAL

	2016 £000	2015 £000
<b>Authorised:</b>		
Unlimited number of ordinary shares of no par value	–	–
<b>Issued and fully paid:</b>		
540,053,660 ordinary shares of no par value (31 March 2015: 540,053,660)	–	–
Share premium	157,449	157,313

The Company issued no new ordinary shares during the year (2015: 160,183,931 shares). The issue costs of new shares in the year ended 31 March 2015 of £2.1 million included an over-accrual of £136,000 which was reversed in the current year.

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders and provided that the ZDP Share Cover for the ZDPs is not less than 3.5 times, after the proposed repurchase. Any buy-back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy-backs will be at the absolute discretion of the Board.



## 21. ADJUSTMENT FOR NON-CASH MOVEMENTS IN THE CASH FLOW STATEMENT

	2016 £000	2015 £000
Profit on disposal of investment properties	(799)	(412)
Increase in investment property valuation	(44,171)	(53,163)
Depreciation of tangible assets	45	49
Increase in receivables	(712)	(3,764)
Increase in payables	2,439	1,863
	(43,198)	(55,427)

## 22. OBLIGATIONS UNDER LEASES

The Group has entered into a number of leases in relation to its investment properties. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows:

	2016 £000	2015 £000
Future minimum payments due:		
Within one year	116	116
In the second to fifth years inclusive	466	466
After five years	7,732	7,849
	8,314	8,431
Less: finance charges allocated to future periods	(6,488)	(6,603)
<b>Present value of minimum lease payments</b>	<b>1,826</b>	<b>1,828</b>

The present value of minimum lease payments is analysed as follows:

	2016 £000	2015 £000
<b>Current</b>		
Within one year	109	103
	109	103
<b>Non-current</b>		
In the second to fifth years inclusive	397	351
After five years	1,320	1,374
	1,717	1,725
	1,826	1,828

### OPERATING LEASES WHERE THE GROUP IS LESSOR

The Group leases its investment properties under operating leases.

At the reporting date, the Group's future income based on the unexpired lessor lease length was as follows (based on annual rentals):

	2016 £000	2015 £000
Within one year	39,556	35,617
In the second to fifth years inclusive	124,853	121,873
After five years	116,228	134,409
	280,637	291,899

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than five years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 23. NET ASSET VALUE

The net asset value per ordinary share is based on net assets at the year end and 540,053,660 (2015: 540,053,660) ordinary shares, being the number of ordinary shares in issue at the year end.

At 31 March 2016, the Company had a net asset value per ordinary share of £0.77 (2015: £0.69).

## 24. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, zero dividend preference shares, obligations under finance leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans and the zero dividend preference shares, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

### CATEGORIES OF FINANCIAL INSTRUMENTS

31 March 2016	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
<b>Financial assets</b>				
Accounts receivable	15	–	17,980	17,980
Cash and cash equivalents	16	–	22,759	22,759
		–	40,739	40,739
<b>Financial liabilities</b>				
Loans	18	–	249,535	249,535
Obligations under finance leases	22	–	1,826	1,826
Accounts payable and accruals	17	–	18,321	18,321
		–	269,682	269,682

31 March 2015	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
<b>Financial assets</b>				
Accounts receivable	15	–	17,890	17,890
Cash and cash equivalents	16	–	70,092	70,092
		–	87,982	87,982
<b>Financial liabilities</b>				
Loans	18	–	232,846	232,846
Obligations under finance leases	22	–	1,828	1,828
Accounts payable and accruals	17	–	16,365	16,365
		–	251,039	251,039

## 25. RISK MANAGEMENT

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

### CAPITAL RISK MANAGEMENT

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements which will enable the Group to reduce its borrowings in an orderly manner over the long-term. The Group intends to repay its zero dividend preference shares in full on the maturity date, and has a new five-year revolving credit facility which can be used for this purpose but also provides greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2016 £000	2015 £000
Total liabilities	269,682	251,039
Less: cash and cash equivalents	(22,759)	(70,092)
<b>Net debt</b>	<b>246,923</b>	<b>180,947</b>
<b>Total equity</b>	<b>417,132</b>	<b>369,970</b>
<b>Net debt to equity ratio at end of year</b>	<b>0.59</b>	<b>0.49</b>

#### INTEREST RATE RISK MANAGEMENT

Interest rate risk arises on interest payable on the revolving credit facility only. The Group's senior debt facilities have fixed interest rates over the lives of the loans and thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

#### INTEREST RATE RISK

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
<b>31 March 2016</b>				
<b>Floating</b>				
Cash and cash equivalents	22,759	–	–	22,759
Secured loan facilities	–	(15,800)	–	(15,800)
<b>Fixed</b>				
Secured loan facilities	(1,057)	(4,718)	(199,926)	(205,701)
Zero dividend preference shares	(28,034)	–	–	(28,034)
	(6,332)	(20,518)	(199,926)	(226,776)
<b>31 March 2015</b>				
<b>Floating</b>				
Cash and cash equivalents	70,092	–	–	70,092
<b>Fixed</b>				
Secured loan facilities	(1,012)	(4,517)	(201,183)	(206,712)
Zero dividend preference shares	–	(26,134)	–	(26,134)
	69,080	(30,651)	(201,183)	(162,754)

#### CREDIT RISK

The following tables detail the balances held at the reporting date that may be affected by credit risk:

	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
<b>31 March 2016</b>				
<b>Financial assets</b>				
Tenant debtors	15	–	3,209	3,209
Cash and cash equivalents	16	–	22,759	22,759
		–	25,968	25,968

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

## 25. RISK MANAGEMENT (CONTINUED)

31 March 2015	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
<b>Financial assets</b>				
Tenant debtors	15	–	3,871	3,871
Cash and cash equivalents	16	–	70,092	70,092
		–	73,963	73,963

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of trade debtors, and where appropriate, credit guarantees are acquired. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers.

A provision of £288,000 (2015: £2,049,000) exists at the year end, in relation to outstanding debtors that are considered to be impaired based on a review of individual debtor balances. The Group believes that unimpaired amounts that are overdue by more than 30 days are still collectable, based on the historic payment behaviours and extensive analyses of the underlying customers' credit ratings. At 31 March 2016 debtors overdue by more than 30 days totalled £227,000 (2015: £2,595,000).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. The Group's main cash balances are held with National Westminster Bank plc ("NatWest"), Santander plc ("Santander"), Nationwide International Limited ("Nationwide") and The Royal Bank of Scotland plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Santander, Nationwide and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2016 and at 31 March 2015 Standard & Poor's credit rating for Nationwide and Santander was A-1 and the Group's remaining bankers had an A-2 rating.

There has been no change in the fair values of cash or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

### LIQUIDITY RISK

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and loan facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group has concluded on a new five-year revolving credit facility to manage liquidity requirements arising from the ZDP maturity.

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets/(liabilities), including interest that will accrue to maturity.



	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
<b>31 March 2016</b>				
Cash	22,787	–	–	22,787
Accounts receivable	14,649	3,331	–	17,980
Finance lease liability	(116)	(466)	(1,244)	(1,826)
Fixed interest rate loans	(38,822)	(38,832)	(262,370)	(340,024)
Floating interest rate loans	(364)	(16,158)	–	(16,522)
Accounts payable and accruals	(18,321)	–	–	(18,321)
	(20,187)	(52,125)	(263,614)	(335,926)
<b>31 March 2015</b>				
Cash	70,180	–	–	70,180
Accounts receivable	14,019	3,871	–	17,890
Finance lease liability	(116)	(466)	(1,246)	(1,828)
Fixed interest rate loans	(9,708)	(67,945)	(272,078)	(349,731)
Accounts payable and accruals	(16,365)	–	–	(16,365)
	58,010	(64,540)	(273,324)	(279,854)

#### MARKET RISK

The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's revenue will be adversely affected.

Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to occupiers, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of occupiers were unable to pay rent or its properties could not be rented on favourable terms. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, the Investment Manager expects to lower the risk profile of the portfolio. The Board continues to oversee the profile of the portfolio to ensure risks are managed.

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £32.7 million (2015: £27.0 million).

#### CONCENTRATION RISK

As discussed above, all of the Group's investments are in the UK and therefore it is exposed to macroeconomic changes in the UK economy. Furthermore, the Group places reliance on a limited number of occupiers for its rental income, with one occupier accounting for 4.0% of the Group's annual contracted rental income.

#### CURRENCY RISK

The Group has no exposure to foreign currency risk.

### 26. RELATED PARTY TRANSACTIONS

The total fees earned during the year by the Directors of the Company amounted to £223,500 (2015: £211,875). As at 31 March 2016 the Group owed £nil to the Directors (2015: £nil). The emoluments of each Director are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

### 27. EVENTS AFTER THE BALANCE SHEET DATE

A dividend of £4,455,000 (0.825 pence per share) was approved by the Board on 25 April 2016 and paid on 31 May 2016.

A new five-year £27 million revolving credit facility has been entered into with Santander Corporate & Commercial Banking on 21 June 2016.

The result of the referendum on 23 June was that the UK should leave the EU. While the full impact of this result is uncertain, the Directors are considering the implications for the Group.

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# EPRA DISCLOSURES (UNAUDITED)



The European Public Real Estate Association (EPRA) is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practice Recommendations (BPR) to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at [www.epra.com](http://www.epra.com).

## EPRA EARNINGS PER SHARE

EPRA Earnings represents the earnings from core operational activities, excluding investment property revaluations and gains/losses on asset disposals. It demonstrates the extent to which dividend payments are underpinned by recurring operational activities.

	2016 £000	2015 £000	2014 £000
Profit/(loss) for the year after taxation	64,848	68,855	37,348
Exclude:			
Investment property valuation movement	(44,171)	(53,163)	(18,422)
Gains on disposal of investment properties	(799)	(412)	(5,660)
<b>EPRA earnings</b>	<b>19,878</b>	<b>15,280</b>	<b>13,266</b>
Weighted average number of shares in issue (000s)	540,054	445,259	359,866
<b>EPRA earnings per share</b>	<b>3.7p</b>	<b>3.4p</b>	<b>3.7p</b>

## EPRA NAV PER SHARE

The EPRA Net Asset Value highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	2016 £000	2015 £000	2014 £000
Balance Sheet net assets	417,132	369,970	214,096
Fair value of financial instruments	–	–	–
Deferred tax	–	–	–
<b>EPRA NAV</b>	<b>417,132</b>	<b>369,970</b>	<b>214,096</b>
Shares in issue (000s)	540,054	540,054	379,870
<b>EPRA NAV per share</b>	<b>77p</b>	<b>69p</b>	<b>56p</b>

## EPRA NNNAV PER SHARE

The EPRA Triple Net Asset Value includes the fair value adjustments in respect of all material balance sheet items.

	2016 £000	2015 £000	2014 £000
EPRA NAV	417,132	369,970	214,096
Fair value of debt	(21,807)	(19,781)	17,817
Deferred tax	–	–	–
<b>EPRA NNNAV</b>	<b>395,325</b>	<b>350,189</b>	<b>231,913</b>
Shares in issue (000s)	540,054	540,054	379,870
<b>EPRA NNNAV per share</b>	<b>73p</b>	<b>65p</b>	<b>61p</b>

# EPRA DISCLOSURES (UNAUDITED)



## EPRA NET INITIAL YIELD (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties.

	2016 £000	2015 £000	2014 £000
Investment property valuation	654,605	540,904	423,020
Allowance for estimated purchasers' costs	44,478	31,629	24,763
<b>Gross up property portfolio valuation</b>	<b>699,083</b>	<b>572,533</b>	<b>447,783</b>
Annualised cash passing rental income	40,365	34,580	31,227
Property outgoings	(957)	(1,026)	(2,285)
<b>Annualised net rents</b>	<b>39,408</b>	<b>33,554</b>	<b>28,942</b>
<b>EPRA Net Initial Yield</b>	<b>5.6%</b>	<b>5.9%</b>	<b>6.5%</b>

## EPRA "TOPPED-UP" NET INITIAL YIELD

The EPRA "topped-up" NIY is calculated by making 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).

	2016 £000	2015 £000	2014 £000
EPRA NIY annualised net rents	39,408	33,554	28,942
Annualised cash rent that will apply at expiry of lease incentives	3,947	3,724	880
<b>Topped-up annualised net rents</b>	<b>43,355</b>	<b>37,278</b>	<b>29,822</b>
<b>EPRA "topped-up" NIY</b>	<b>6.2%</b>	<b>6.5%</b>	<b>6.7%</b>

## EPRA VACANCY RATE

EPRA Vacancy Rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage.

	2016 £000	2015 £000	2014 £000
Annualised potential rental value of vacant premises	1,867	1,920	2,956
Annualised potential rental value for the complete property portfolio	47,596	40,013	33,810
<b>EPRA Vacancy Rate</b>	<b>3.9%</b>	<b>4.8%</b>	<b>8.7%</b>

## EPRA COST RATIO

EPRA Cost Ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2016 £000	2015 £000	2014 £000
Property operating expenses	3,308	2,861	2,527
Property void costs	1,540	1,948	1,683
Management expenses	2,901	2,591	2,127
Other operating expenses	1,510	1,194	1,139
Less:			
Ground rent costs	(259)	(159)	(249)
<b>EPRA costs (including direct vacancy costs)</b>	<b>9,000</b>	<b>8,435</b>	<b>7,227</b>
Property void costs	(1,540)	(1,948)	(1,683)
<b>EPRA costs (excluding direct vacancy costs)</b>	<b>7,460</b>	<b>6,487</b>	<b>5,544</b>
Gross rental income	39,663	34,088	31,036
Less ground rent costs	(259)	(159)	(249)
<b>Gross rental income</b>	<b>39,404</b>	<b>33,929</b>	<b>30,787</b>
<b>EPRA Cost Ratio (including direct vacancy costs)</b>	<b>22.8%</b>	<b>24.9%</b>	<b>23.5%</b>
<b>EPRA Cost Ratio (excluding direct vacancy costs)</b>	<b>18.9%</b>	<b>19.1%</b>	<b>18.0%</b>



## CAPITAL EXPENDITURE

The table below sets out the capital expenditure incurred over the financial year, in accordance with EPRA Best Practices Recommendations.

	2016 £000	2015 £000
Acquisitions	–	8
Development	–	–
Like-for-like portfolio	4,403	4,062
Other	–	–
<b>Total capital expenditure</b>	<b>4,403</b>	<b>4,070</b>

## LIKE-FOR-LIKE RENTAL GROWTH

The table below sets out the like-for-like rental growth of the portfolio, by sector, in accordance with EPRA Best Practices Recommendations.

	Offices		Industrial		Retail and Leisure		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Like-for-like rental income	11,457	10,727	12,069	12,775	9,002	7,555	32,528	31,057
Properties acquired	2,036	–	2,688	2,170	2,381	608	7,105	2,778
Properties sold	(59)	68	–	–	89	185	30	253
	<b>13,434</b>	<b>10,795</b>	<b>14,757</b>	<b>14,945</b>	<b>11,472</b>	<b>8,348</b>	<b>39,663</b>	<b>34,088</b>

## EPRA SUSTAINABILITY REPORTING

The Group's sustainability data reported below is for the year ended 31 December 2015, with comparatives for the year ended 31 December 2014.

The table below sets out the total energy consumption from the Group's portfolio by sector.

Sector	Total energy consumption from electricity (kWh)	Total energy consumption from fuels (kWh)	Building energy intensity (kWh/m <sup>2</sup> /year)
Industrial	113,415	14,235	1.65
Office	8,745,475	5,067,628	181.67
Retail and Leisure	535,483	306,214	21.05
<b>Total</b>	<b>9,394,373</b>	<b>5,388,077</b>	<b>76.38</b>

Where data was unavailable, emissions were estimated by prorating the daily consumption calculated from available information. Estimated data accounts for less than 1% of electricity data and 49% of gas data.

The table below sets out the like-for-like energy consumption by sector, and the change from the previous year.

Sector	Electricity consumption (kWh)			Fuel consumption (kWh)		
	2015	2014	Change	2015	2014	Change
Industrial	113,415	80,933	40.1%	6,956	110,764	–93.7%
Office	7,606,289	7,411,602	2.6%	4,856,635	4,674,832	3.9%
Retail and Leisure	529,299	578,833	–8.6%	306,214	308,414	–0.7%
<b>Total</b>	<b>8,249,003</b>	<b>8,071,368</b>	<b>2.2%</b>	<b>5,169,805</b>	<b>5,094,010</b>	<b>1.5%</b>

# EPRA DISCLOSURES (UNAUDITED)



The table below sets out the Group's direct and indirect greenhouse gas (GHG) emissions by sector.

Sector	Total direct emissions (tCO <sub>2</sub> e)	Total indirect emissions (tCO <sub>2</sub> e)	GHG emissions intensity (kgCO <sub>2</sub> e/m <sup>2</sup> /year)
Industrial	3	52	0.00
Office	935	4,042	0.21
Retail and Leisure	56	248	0.14
<b>Total</b>	<b>994</b>	<b>4,342</b>	<b>0.03</b>

Note: Scope 1 and 2. Where data was unavailable, emissions were estimated by prorating the daily rate of consumption calculated from available information. Estimated data accounts for 49% of emissions.

The table below sets out the Group's like-for-like direct and indirect greenhouse gas emissions by sector.

Sector	Direct emissions (tCO <sub>2</sub> e)			Indirect emissions (tCO <sub>2</sub> e)		
	2015	2014	Change	2015	2014	Change
Industrial	<b>1</b>	20	-93.8%	<b>52</b>	40	31.1%
Office	<b>896</b>	865	3.6%	<b>3,516</b>	3,663	-4.2%
Retail and Leisure	<b>57</b>	57	-1.0%	<b>245</b>	286	-14.3%
<b>Total</b>	<b>954</b>	942	1.2%	<b>3,813</b>	3,989	-4.4%

The table below sets out the Group's water withdrawal by source.

Sector	Total water withdrawn by source (m <sup>3</sup> )	Building water intensity (m <sup>3</sup> /m <sup>2</sup> /year)
Industrial	600	0.10
Office	28,473	0.43
Retail and Leisure	523	0.99
<b>Total</b>	<b>29,596</b>	<b>0.38</b>

Where data was unavailable, consumption has been estimated by prorating the daily rate of consumption calculated from available information. Estimated data accounts for 5.0% of water consumption.

The following table sets out the Group's like-for-like total water consumption by sector.

Sector	Water withdrawn (m <sup>3</sup> )		
	2015	2014	Change
Industrial	<b>600</b>	600	0.0%
Office	<b>26,853</b>	26,143	2.7%
Retail and Leisure	<b>523</b>	524	-0.1%
<b>Total</b>	<b>27,976</b>	27,267	2.6%

The following table sets out the Group's waste by disposal route.

Sector	Recycling (kg)	Composting (kg)	Recovery (kg)	Incineration (kg)	Landfill (kg)	Other (kg)	Total (kg)
Industrial	–	–	–	–	–	–	–
Office	260,331	21,434	–	90,045	158,548	–	530,358
Retail and Leisure	265,000	–	–	261,000	–	–	526,000
<b>Total</b>	<b>525,331</b>	<b>21,434</b>	<b>–</b>	<b>351,045</b>	<b>158,548</b>	<b>–</b>	<b>1,056,358</b>
Proportion of waste by disposal route (%)	50	2	–	33	15	–	100

Where data was unavailable, waste weights have been estimated by prorating available information or using last year's data using intensity ratios. Proportion of waste by disposal route was calculated using proportions of actual data available.

The table below sets out the Group's like-for-like weight of waste by disposal route.

		2015	2014	Change
Recycling	Office	260,331	144,385	80.3%
	Retail and Leisure	265,000	309,655	–14.4%
		525,331	454,040	15.7%
Composting	Office	21,434	18,789	14.1%
	Retail and Leisure	–	–	–
		21,434	18,789	14.1%
Incineration	Office	90,045	68,356	31.7%
	Retail and Leisure	261,000	–	–
		351,045	68,356	413.6%
Landfill	Office	158,548	119,617	32.5%
	Retail and Leisure	–	309,655	–100.0%
		158,548	429,272	–63.1%
<b>Total</b>	Office	530,358	351,147	51.0%
	Retail and Leisure	526,000	619,310	–15.1%
		1,056,358	970,457	8.9%

The table below sets out the Scope 3 business travel emissions for Picton Directors and employees.

	Total kgCO <sub>2</sub> e emissions	Total distance (km)
Car	2,559	14,036
Air	5,508	35,908
Train	1,687	37,450
<b>All transport</b>	<b>9,754</b>	<b>87,394</b>

# SUPPLEMENTARY DISCLOSURES (UNAUDITED)

## ONGOING CHARGES

The Ongoing Charges ratio is based on historical information and provides shareholders with an indication of the likely level of cost that will be incurred in managing the Group. The Association of Investment Companies (AIC) is the trade body for closed-ended investment companies. The AIC recommended methodology for calculating the Ongoing Charges ratio uses the annual recurring operational expenses as a percentage of the average net asset value over the period.

	2016 £000	2015 £000	2014 £000
Property expenses	4,848	4,809	4,210
Management expenses	2,901	2,591	2,127
Other operating expenses	1,510	1,194	1,139
<b>Recurring operational expenses</b>	<b>9,259</b>	<b>8,594</b>	<b>7,476</b>
Average Net Asset Value over the year	400,415	304,546	192,073
<b>Ongoing Charges</b>	<b>2.3%</b>	<b>2.8%</b>	<b>3.9%</b>
<b>Ongoing Charges (excluding property expenses)</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>

## LOAN TO VALUE

The loan to value (LTV) is calculated by taking the Group's total borrowings, net of cash, as a percentage of the total portfolio value.

	2016 £000	2015 £000	2014 £000
Total borrowings	249,535	232,846	234,016
Less:			
Cash and cash equivalents	(22,759)	(70,092)	(32,352)
<b>Total net borrowings</b>	<b>226,776</b>	<b>162,754</b>	<b>201,664</b>
Investment property valuation	654,605	540,905	423,020
<b>Loan to value</b>	<b>34.6%</b>	<b>30.1%</b>	<b>47.7%</b>

## GEARING

Using the method recommended by the AIC, Gearing is calculated by dividing the Group's total assets, less cash, by shareholders' funds.

	2016 £000	2015 £000	2014 £000
Total assets	686,814	621,009	464,272
Less:			
Cash and cash equivalents	(22,759)	(70,092)	(32,352)
	664,055	550,917	431,920
Total equity	417,132	369,970	214,096
<b>Gearing</b>	<b>59.2%</b>	<b>48.9%</b>	<b>101.7%</b>



# PROPERTY PORTFOLIO

## Properties valued in excess of £30 million

- Parkbury Industrial Estate, Radlett, Herts.
- Units A-G2, River Way Industrial Estate, Harlow, Essex
- Angel Gate Office Village, City Road, London EC1
- Stanford House, 12-14 Long Acre, London WC2

## Properties valued between £25 million and £30 million

- Boundary House, Jewry Street, London EC3
- 50 Farringdon Road, London EC1

## Properties valued between £20 million and £25 million

- Belkin Unit, 3 Shipton Way, Rushden, Northants.
- 30 & 50 Pembroke Court, Chatham, Kent

## Properties valued between £15 million and £20 million

- Parc Tawe, Phase II, Link Road, Swansea
- B&Q, Queens Road, Sheffield
- Metro Building, Salford Quays, Manchester
- Colchester Business Park, The Crescent, Colchester, Essex
- 1-3 Chancery Lane, London WC2
- Angouleme Way Retail Park, Bury, Greater Manchester
- Citylink, Addiscombe Road, Croydon

## Properties valued between £10 million and £15 million

- Gloucester Retail Park, Eastern Avenue, Gloucester
- Unit 3220, Magna Park, Lutterworth, Leics.
- 180 West George Street, Glasgow
- Grantham Book Services, Trent Road, Grantham, Lincs.
- 401 Grafton Gate East, Milton Keynes, Bucks.
- Lyon Business Park, Barking, Essex
- Datapoint Business Centre, Cody Road, London E16
- Units 1-13 Dencora Way, Sundon Park, Luton, Beds.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.

## Properties valued between £5 million and £10 million

- Vigo 250, Birtley Road, Washington, Tyne and Wear
- Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey
- 62/68 Bridge Street, Peterborough
- Regency Wharf, Broad Street, Birmingham
- 56 Castle Street, 2/12 English Street and 12-21 St Cuthberts Lane, Carlisle, Cumbria
- Lawson Mardon Buildings, Kettlestring Lane, York
- 53/55/57 Broadmead, Bristol
- Queens House, 19/29 St Vincent Place, Glasgow
- Longcross Court, Newport Road, Cardiff
- Scots Corner, High Street/Institute Road, Birmingham
- Trident House, 42/48 Victoria Street, St Albans, Herts.
- Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire
- 78-80 Briggate, Leeds
- Western Industrial Estate, Downmill Road, Bracknell, Berks.
- 800 Pavilion Drive, Northampton Business Park, Northampton
- Easter Court, Gemini Park, Warrington
- Strathmore Hotel, Arndale Centre, Luton, Beds.
- Atlas House, Third Avenue, Globe Park, Marlow, Bucks.

## Properties valued under £5 million

- L'Avenir, Opladen Way, Westwick, Bracknell, Berks.
- Sentinel House, Ancells Business Park, Fleet, Hants.
- 17/19 Fishergate, Preston, Lancs.
- Merchants House, Crook Street, Chester
- Units 1-3, 18/28 Victoria Lane, Huddersfield, West Yorks.
- 72/78 Murraygate, Dundee
- Waterside Park, Longshot Lane, Bracknell, Berks.
- 2 Bath Street, Bath
- 7 & 9 Warren Street, Stockport
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- Waterside House, Kirkstall Road, Leeds
- Magnet Trade Centre, Winnersh, Reading
- 6/12 Parliament Row, Hanley, Staffs.
- Manchester Road/Drury Lane, Oldham, Lancs.
- Marshall Building, 122-124 Donegall Street, Belfast
- 6 Argyle Street, Bath

# 5 YEAR FINANCIAL SUMMARY

	2016	2015	2014	2013	2012
<b>Income Statements</b>					
Net property income	35.9	30.3	27.7	29.8	36.2
Management expenses	(2.9)	(2.6)	(2.1)	(1.7)	(3.8)
Other operating expenses	(1.5)	(1.2)	(1.1)	(1.4)	(1.4)
Exceptional costs	–	–	–	(0.2)	(2.5)
	31.5	26.5	24.5	26.5	28.5
Net finance costs	(11.4)	(10.9)	(10.9)	(11.5)	(14.6)
<b>Income profit before tax</b>	20.1	15.6	13.6	15.0	13.9
Tax	(0.2)	(0.3)	(0.4)	(0.3)	0.3
<b>Income profit</b>	19.9	15.3	13.2	14.7	14.2
Property gains and losses	44.9	53.6	24.1	(30.9)	(13.9)
Financing gains and losses	–	–	–	1.6	6.2
<b>Profit/loss after tax</b>	64.8	68.9	37.3	(14.6)	6.5
Dividends paid	17.8	13.1	10.7	12.1	17.3
	2016	2015	2014	2013	2012
<b>Balance Sheets</b>					
Investment properties	646.0	532.9	417.6	382.7	411.7
Borrowings	(249.5)	(232.8)	(234.0)	(233.4)	(233.0)
Other assets and liabilities	20.6	69.9	30.5	20.1	17.4
<b>Net assets</b>	417.1	370.0	214.1	169.4	196.1
Net asset value per share (pence)	77	69	56	49	57
EPRA net asset value per share (pence)	77	69	56	49	58
Earnings per share (pence)	12.0	15.4	10.4	(4.2)	1.9
Dividends per share (pence)	3.3	3.0	3.0	3.5	5.0
Dividend cover (%)	112	117	124	122	82
Share price (pence)	69.8	71.8	56.8	40.0	41.3

All figures are in £million unless otherwise stated.

Reporting dates are annual except 2012, which is a 15-month period to 31 March 2012.

# GLOSSARY

<b>AIC</b>	Association of Investment Companies.
<b>AIFMD</b>	Alternative Investment Fund Managers Directive.
<b>Annual Rental Income</b>	Cash rents passing at the Balance Sheet date.
<b>CIPS</b>	Chartered Institute of Purchasing and Supply.
<b>Contracted rent</b>	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
<b>DTR</b>	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
<b>Dividend cover</b>	Income profit after tax divided by dividends paid.
<b>Earnings per share (EPS)</b>	Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.
<b>EPC</b>	Energy performance certificate.
<b>EPRA</b>	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
<b>Estimated rental value (ERV)</b>	The external valuers' 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.
<b>Fair value</b>	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 the proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
<b>Fair value movement</b>	An accounting adjustment to change the book value of an asset or liability to its fair value.
<b>FRI lease</b>	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
<b>Group</b>	Picton Property Income Limited and its subsidiaries.
<b>IASB</b>	International Accounting Standards Board.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Property Income return</b>	The ungeared income return of the portfolio as calculated by MSCI IPD.
<b>Initial yield</b>	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
<b>Lease incentives</b>	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 incentives is amortised through the Income Statement on a straight-line basis until the lease expiry.
<b>MSCI IPD</b>	MSCI Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
<b>NAV</b>	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
<b>Ongoing Charges ratio</b>	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period, as defined by the AIC.
<b>Over-rented</b>	Space where the passing rent is above the ERV.
<b>PMI</b>	Purchasing Managers Indexes.
<b>Rack-rented</b>	Space where the passing rent is the same as the ERV.
<b>Reversionary yield</b>	The estimated rental value as a percentage of the gross property value.
<b>Total property return</b>	Combined ungeared income and capital return from the property portfolio.
<b>Total return</b>	Measures the performance of the Group based on its published results.
<b>Total shareholder return</b>	Measures the change in share price over the year plus dividends paid.
<b>Weighted average debt maturity</b>	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
<b>Weighted average interest rate</b>	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
<b>Weighted average lease term</b>	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.
<b>ZDP</b>	Zero dividend preference share.
<b>ZDP share cover</b>	The Group's net asset value, including any accrued ZDP capital additions, divided by the final ZDP liability on their maturity.

# FINANCIAL CALENDAR

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Annual Results announced	28 June 2016
Annual Results posted to shareholders	29 July 2016
Annual General Meeting	10 November 2016 (provisional)
June 2016 NAV announcement	July 2016 (provisional)
2016 Half Year Results to be announced	November 2016 (provisional)
December 2016 NAV announcement	January 2017 (provisional)
Dividend Payment Dates	August/November/February/May



# SHAREHOLDER INFORMATION

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## DIRECTORS

Nicholas Thompson (Chairman)  
Trevor Ash (resigned 1 October 2015)  
Vic Holmes  
Roger Lewis  
Michael Morris (appointed 1 October 2015)  
Robert Sinclair

## REGISTERED OFFICE

PO Box 255  
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Les Banques  
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Registered Number: 43673

## ADMINISTRATOR AND SECRETARY

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## TAX ADVISER

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# SHAREHOLDER INFORMATION

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## SHAREHOLDER ENQUIRIES

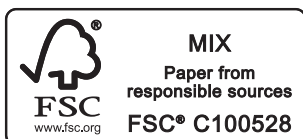
All enquiries relating to holdings in Picton Property Income Limited, including notification of change of address, queries regarding dividend/ interest payments or the loss of a certificate, should be addressed to the Company's registrars.

## WEBSITE

The Company has a corporate website which holds, amongst other information, a copy of our latest annual report and accounts, a list of properties held by the Group and copies of all press announcements released over the last five years.

The site can be found at:

**[www.picton.co.uk](http://www.picton.co.uk)**



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## PICTON PROPERTY INCOME LIMITED

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