Ground Rents Income Fund plc

Half Year Report and Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2022

About Us

Ground Rents Income Fund plc (the "Company") invests in long-term, income-generating real estate assets across the United Kingdom.

Company summary

The Company is a closed-ended real estate investment trust incorporated in England on 23 April 2012. The Company has been listed on The International Stock Exchange ("TISE") and has traded on the SETSqx platform of the Stock Exchange since 13 August 2012. At 31 March 2022 the Company had 95,667,497 shares in issue and had 38 active subsidiaries and eight dormant subsidiaries which, together with the Company, form the Group ("GRIO"). The Company is a Real Estate Investment Trust ("REIT"). Accordingly, it will distribute at least 90% of its distributable profits by way of dividends. The Company's Alternative Investment Fund Manager ("AIFM"), is Schroder Real Estate Investment Management Limited (the "Investment Manager", "SREIM" or "Schroders").

Continuation vote

The Company Articles of Association contain provisions for continuation votes to be held at specified intervals. The first continuation vote is due to be put forward at an AGM before August 2023.

Regulatory reform

The UK Government has launched a number of consultations since 2017 focussed on reforming the residential leasehold sector. The Board and Manager support fair reform of the leasehold system and, in May 2019, the Company signed the Government's 'Public Pledge for Leaseholders', which was an important step towards positive change and sensible, well-considered reform.

In January 2021 the Government set out high level reform proposals based on guidance from the Law Commission report from 2020. Although much is in line with previous guidance, important areas of detail remain unclear relating to enfranchisement, specifically the methodology for an online premium calculator and the proposed 0.1% of market value cap on the quantum of ground rent that can be capitalised in the premium calculation. If enacted as drafted, the proposals could facilitate a one-time transfer of wealth from one consumer group to another.

The Leasehold Reform (Ground Rent) Act 2022, which comes into force on 30 June 2022, is the first step in implementing primary legislation and introduces a requirement that ground rents in new residential long leases have no financial value.

The Manager continues to engage actively with Government in order to ensure that all stakeholders are carefully considered in any proposed legislation and how sufficient compensation will be paid to landlords in line with the peaceful enjoyment requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights.

In April 2022, the Building Safety Act ("BSA") received Royal Assent which aims to improve building safety and standards and protect leaseholders from the costs of remediating building safety issues to do with the spread of fire or the collapse of the building on properties above 11 metres in height.

Further detail on both leasehold and building safety reform is found within the Investment Manager's Report. The Board and the Manager believe that institutional ground rent investors have the necessary financial incentive, expertise and resource to perform these complex duty-holder obligations in order to protect leaseholders and assist Government in implementing its proposed building safety reforms.

Investment objective

The Company has been established to provide secure long-term performance through investment in long-dated UK ground rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

The Company will give investors the opportunity to invest, through the Company, in a portfolio of ground rents. The Company will seek to acquire a portfolio of assets with the potential for income generation from the collection of ground rents. These investments also have the potential for capital growth, linked to contractual increases in ground rents over the long-term.

The Company will seek to generate consistent income returns for shareholders by investing in a diversified portfolio of ground rents including freeholds and head leases of residential, retail and commercial properties located in the United Kingdom.

Investment strategy

The Group's strategy is to invest in a diversified portfolio of residential and commercial freeholds and head leases offering the potential for income generation from ground rents that are hedged against inflation and for capital growth from active asset management.

In other parts of the real estate market there is strong demand for investments offering similar, annuity-style cash flows and we expect this demand to continue. The Company's portfolio benefits from the following characteristics:

- Highly-diversified, long-term portfolio of approximately 19,000 units across 392 assets with a low default risk
- Predictable revenue with upward-only rental increases, of which 71% is indexed-linked, predominantly to the Retail Prices Index ("RPI")
- Long-term income with weighted average lease duration of 379 years
- 48.2% of the portfolio ground rent income is due to be reviewed over the next five years and in aggregate 72% to be formally reviewed within the next ten years.

Assuming RPI inflation of 3.3% per annum, ground rent income should increase by approximately 23% over the next five years or 4.2% per annum, 90 basis points per annum above the assumption for future RPI.

Asset class restrictions

The Group intends that no single ground rent property should represent more than 25% of the gross asset value of the Group at the time of investment. The Company has the ability to gear up to 25% loan to gross asset value.

Other restrictions

The Group does not expect to engage in any hedging transactions, save for interest rate hedging. At the sole discretion of the Directors, the Group may use hedging, financial and money market instruments in the management of its assets and risk. The Group may reinvest both realised invested capital and any profits that have not been distributed, subject to distributing 90% of distributable income profits arising from the Group's Qualifying Property Rental Business in each accounting year in order to comply with the Group's REIT obligations.

Borrowing policy

The Group may make use of structural or long-term debt facilities for investment purposes, and, if a portfolio of assets was available to be acquired in a corporate structure which has some existing borrowings within its corporate vehicles, these may be retained. In all cases the borrowing anticipated would be limited in scale to no more than 25% of the gross assets of the Group.

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Portfolio at a Glance

Top 10 assets by value (shown below on map)

	Asset	Location	Valuation at 31 March 2022 (£million)	% of portfolio	Asset type
1	Lawrence Street Student Village	York	7.8	7.1	Student
2	Wiltshire Leisure Village	Royal Wootton Bassett	3.4	3.1	Residential
3	First Street	Manchester	3.2	2.9	Student
4	Rathbone Market	London	3.2	2.9	Residential
5	One Park West	Liverpool	3.1	2.9	Residential
6	Masshouse Plaza	Birmingham	3.0	2.7	Residential
7	Richmond House	Southampton	2.4	2.1	Residential
8	Brewery Wharf	Leeds	1.9	1.7	Residential
9	Portland House	Exeter	1.7	1.5	Student
10	City Island	Leeds	1.7	1.5	Residential
			31.4	28.4	

Number of assets

392

Number of investment units

19,000+

Total portfolio value

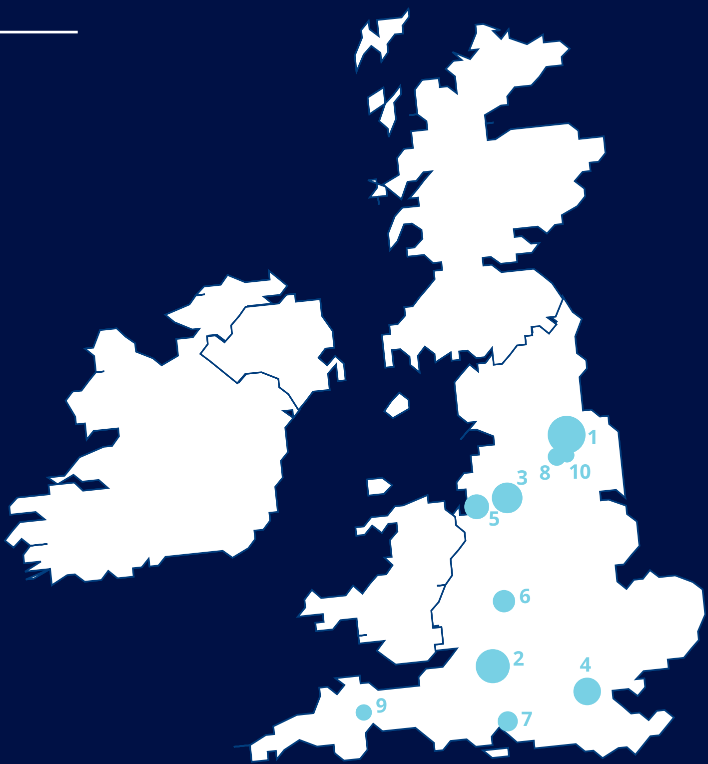
£110 million

Percentage of the portfolio value comprised of top ten assets

28.4%

Percentage of the ground rent income to be reviewed in the next five years

48.2%



Chair's Statement

Overview for the interim period to 31 March 2022

Over the interim period, in addition to normal asset and investment management activities, there has been a continued high level of activity focussed on the headwinds relating to leasehold and building safety reform. Whilst the final outcome for leasehold reform remains unclear, the Government has provided important detail relating to building safety reform, with a focus on ensuring that those involved in the development of poorly constructed buildings are responsible for their remediation. This aspect is welcome, and consistent with the "polluter pays" principle, but there is a risk that the proposals may also place ultimate liability on current building owners, even if they had not been involved in the original development.

This uncertainty has led our independent valuer, Savills, in conjunction with industry peers and the Royal Institution of Chartered Surveyors ("RICS"), to adopt a Material Valuation Uncertainty Clause. The uncertainty has resulted in Savills valuing our portfolio at £110 million as at 31 March 2022, which represents a fall in value of £9.4 million or 7.9% over the period (30 September 2021: £119.4 million).

As a result of the valuation decline, the Company's Net Asset Value ("NAV") fell by 10.2% to £89.5 million or 93.6 pence per share ("pps"). Dividends totalling £1.4 million or 1.5 pps were paid during the period, resulting in a NAV total return of -7.8%. Share buybacks totalling £795,000 over the period enhanced the NAV by 0.2 pps.

In light of the Continuation Vote that is due to take place no later than August 2023, the Board and Investment Manager (the "Manager") are reviewing options to deliver best value for shareholders. This includes ensuring that shareholder interests are represented as part of the Government's reform agenda, as well as improving the liquidity of the underlying portfolio. It is currently unclear whether the challenges facing the Company will be resolved during the next 15 months, and consideration is therefore being given to extending the Continuation Vote timetable for a limited period.

Income and dividends

Ground rent income increased by 2% over the period, supported by high rental collection rates and rent reviews. The negative impact of falling insurance commissions and consent fees in the prior financial year has also stabilised, supported by higher activity levels in the residential apartment market. This resulted in a 2.7% increase in recurring underlying earnings over the period and, as a result of this activity, the dividend was fully covered by recurring earnings.

Leasehold reform

The UK Government's legislative programme of leasehold reform progressed over the period, with The Leasehold Reform (Ground Rent) Act 2022 banning the creation of new residential ground rents. The legislation is not retrospective and, although it should not impact our portfolio, it will reduce the supply of residential ground rents over time.

This Company has long argued for fair and sustainable leasehold reform and, since 2017, has implemented an asset management programme to remove all doubling residential ground rents from our portfolio. The programme has been modified over the period to offer enhanced terms with the aim of accelerating the removal of all doubling leases that may be considered onerous from our portfolio.

Further, a more comprehensive programme of reform is yet to be formally proposed by the Government, but will seek to improve fairness and transparency in the residential housing market, including enfranchisement reform and the regulation of property managers.

Based on past Law Commission recommendations and Government statements, this future reform, via a proposed Leasehold and Commonhold Reform Bill, may include changes to the calculation of enfranchisement premiums payable to landlords (the premium is the amount paid by a leaseholder to a landlord to buy the freehold of their property, or extend a lease by 90 years at nil rent) by including prescribed capitalisation rates and a cap on the ground rent assumed in the enfranchisement calculation.

Whilst there is no clarity on the potential for prescribed capitalisation rates, there is an expectation that ground rents assumed in the enfranchisement formula could be capped at 0.1% of the unencumbered property value. Based on our detailed analysis, 51% and 50% of the Company's assets by value and rent respectively are either below this 0.1% cap or unlikely to be in scope of the legislation. On the same basis, 45% and 46% of the portfolio value and rent respectively has residential ground rents that exceed the 0.1% cap, but with the majority of this being under 0.2% of the unencumbered property value. The portfolio valuation at the period end reflects a £4.6 million negative adjustment to reflect the risk and uncertainty associated with leasehold reform.

Further detail on this important piece of legislation, and its potential impact on the Company, is set out in the Investment Manager's Report.

Building safety reform

In February 2022, the Government proposed amendments to the Building Safety Bill (the "BSB") that assigns responsibility for costs of building-safety remediation on all affected buildings between 11 and 18 metres in height to the original developers. The Company did not act as developer of any of the buildings within our portfolio.

The Company has applied to the Government's Building Safety Fund for affected buildings over 18 metres, and, based on the BSB proposals, this is still expected to fully cover all material remediation costs. However, for buildings between 11 and 18 metres, termed 'mid-rise' buildings, the proposed BSB amendments make freeholders ultimately liable to meet the cost of remediation where those responsible for the original development including developers, construction product and cladding manufacturers, no longer exist.

The Government's stance in relation to these mid-rise buildings appears to override the repairing obligations contained within lease agreements between freeholder as landlord and the individual apartment owners as tenant. This approach has led to many large, listed, residential developers announcing increased provisions for these liabilities, along with signing up to a commitment to carry out the required BSB works at their own cost.

As noted in the overview above, although the amendments to the BSB are not yet enacted in law, there is such a level of uncertainty that our independent valuer, Savills, has adopted a Material Valuation Uncertainty Clause. This applies to all assets where there is a building safety valuation adjustment, including buildings over 11 metres tall.

Savills have confirmed that the aggregate valuation adjustment for fire safety risks, including adjustments made in prior periods, now amounts to £13.9 million at the period end. It is important to note that the majority of this valuation adjustment is not attributable to known building issues, but instead reflects a general discount to the value of affected buildings where building safety remediation issues or costs are unknown or uncertain, whether this is likely to be a liability to the Company, or not.

The Board and Manager are highly cognisant of these risks and have instructed third party building consultant inspections where relevant on the Company's 61 mid-rise buildings. Based on these inspections, together with information from relevant third party management companies and original developers, our current assessment is that six of these properties may require building safety remediation. In all cases, leaseholders have been informed and mitigation measures are in place. Further details on building safety reform and related activity are in the Investment Manager's Report.

All companies or entities that own, lease out, or manage a building with life-critical building safety risks have been sent a letter dated 27 June 2022 from Rt Honourable Michael Gove MP making clear that breaches of the statutory protections will be committing a criminal offence. We have already been reviewing our protocols and procedures to ensure compliance with the Building Safety Act 2022.

In summary, we expect to mitigate a material quantum of the risks and costs associated with known building safety issues, which should lead to an improvement in the relevant asset values. However, as stated in all shareholder reports, we are operating in a complex and rapidly evolving Government-led regulatory landscape and there is always a risk that further building safety issues are identified or legislated for.

CMA

Since 2019 the Competition and Markets Authority ("CMA") has been investigating potential breaches of consumer law in the leasehold housing market and has previously secured undertakings with an institutional landlord – Aviva Investors REaLM Ground Rent Fund – and two major housebuilders – Countryside and Taylor Wimpey – to remove rent reviews that double more frequently than every 20 years, as well as undertakings from another housebuilder, Persimmon, in relation to the mis-selling of leasehold houses.

During the interim period, the CMA announced that 15 landlords who had purchased Countryside freeholds have now given their commitment to remove rent reviews that double more frequently than every 20 years. In return, Countryside will pay the freeholders an undisclosed amount for changes to their legitimate property interests. The Company does not own any properties built by Countryside where the rents double more frequently than every 20 years and was therefore not a party to the undertakings.

The Company is not currently under investigation by the CMA but, as an active industry participant, we will continue to closely monitor its investigations and announcements.

ESG

We define ESG factors as the environmental stewardship, social responsibility, and good governance practices that, when actively managed, measured and disclosed, will ensure sustainable business performance and accountability to all stakeholders.

Delivering positive change in relation to environmental factors can take more time compared to a commercial property portfolio due to the nature of residential ground leases, where leaseholders retain most of the economic interest in their buildings, and often the management responsibilities. The Company does however have greater ability to effect positive change in relation to social and governance factors. For example, and as noted above, we are working hard to address the complex building safety issues across the portfolio and protect leaseholders in their own homes and from associated costs where relevant. The tender and subsequent reappointment of the Company's principal property manager has also improved leaseholder engagement and bolstered ESG requirements, for example, by switching leaseholders to the provider's online communications platform in return for donations to a tree planting scheme managed by the Woodland Trust. As further support to this initiative, the Company will match fund every tree planted.

In recognition of the role and responsibilities of the real estate industry and property owners, in December 2020 the Investment Manager published its pathway to achieving net zero carbon across all assets by 2050. We will be including more detail in our year end results relating to ESG factors, including consideration of a net zero carbon commitment. Schroders plc produces a Task Force on Climate-Related Financial Disclosures ("TCFD") report each year, and from June 2023 the Investment Manager will also produce TCFD for itself and the Company.

Looking forward, the Board welcomes the increased focus from the FCA and others on improving diversity and inclusion on listed company boards. Our Investment Manager also has clear policies relating to diversity and inclusion, and we hope to be able to demonstrate further progress in this important area.

Debt

The Company has a £25 million loan facility with Santander UK plc that matures in January 2025 and which comprises a £12.5 million term loan and a £12.5 million revolving credit facility ("RCF"). At the period end, £21 million was drawn which reflected a loan to value ("LTV") of 33%, based on the Company's independent valuation of the charged assets. The Company has £62 million of uncharged assets which results in a consolidated group LTV, net of cash, of 19.1%.

The Company's debt facility with Santander UK Plc allows the bank to periodically call for a revaluation of the charged pool of assets. This was conducted during the interim period and is due to be finalised at approximately £50.3 million, broadly in line with the view of the Company's independent valuer. All bank covenants continue to be met.

Share Buybacks

In 2021 the Company announced a share-buyback programme and during the period acquired 1,079,000 shares at an average price of 72 pps. Following the most recent Government announcements on leasehold and building safety reform, the share-buyback programme has been paused until there is greater clarity on the outlook.

Outlook

We are operating in a very challenging and complex regulatory and legislative environment. These factors have led to a falling portfolio valuation and NAV, albeit with the potential that these negative valuation adjustments may ultimately not be fully crystallised. The Board and Manager are taking all steps to ensure that risk is managed efficiently to protect shareholder value and ensure our leaseholders are safe in their homes.

More broadly, following a strong post-pandemic recovery in the UK real estate market, economic growth forecasts have fallen markedly in recent months due to high inflation, the war in Ukraine and continued lockdowns in China and other emerging markets. The speed and force of the upturn in inflation has been remarkable, with the latest official data showing an 11% increase in RPI over the year to April 2022.

Whilst the Bank of England has responded to the threat of inflation by raising interest rates, with inflation pressures forecast to subside during 2023, the Company's underlying, inflation-linked, cashflows should benefit, with 48.2% of ground rent income due to be reviewed in the next five years.

The paradoxical nature of the environment in which the Company is operating, where the reform headwinds negate the benefits of our long term, inflation-linked cashflows, makes assessing the options relating to the Continuation Vote difficult. We are therefore giving this more consideration and intend to provide shareholders with greater clarity on our approach later in 2022, which may include recommending an extension of the Continuation Vote timetable for a limited period.

Barry Gilbertson
Chair

29 June 2022

Investment Manager's Report

Performance

The Company's NAV was £89.5 million or 93.6 pence per share ("pps") as at 31 March 2022, which compares with £99.7 million or 103.1 pps at the start of the interim period. This reflected a NAV decline of 9.5 pps or -10%, and a NAV total return of -7.8%, which includes dividends paid over the period of £1.4 million or 1.5 pps.

The movement in NAV over the interim period is set out in the table below:

	£ million	PPS
NAV as at 30 September 2021	99.7	103.1
Portfolio valuation	-9.4	-9.7
Net revenue	1.4	1.5
Dividends paid	-1.4	-1.5
NAV as at 31 March 2022 (excluding share buyback)	**90.3**	**93.4**
Share buyback	-0.8	0.2
NAV as at 31 March 2022	**89.5**	**93.6**

The independent portfolio valuation carried out by Savills as at 31 March 2022 of £110.0 million represented a decrease of £9.4 million or -7.9% over the period (30 September 2021: £119.4 million).

As noted in the Chair's Statement, the period end valuation includes a Material Valuation Uncertainty Clause ("MUC") which applies to assets where there is a building safety valuation adjustment, including buildings over 11 metres tall. This applies to 23% of the portfolio valuation.

Savills have confirmed that £7.8 million of the £9.4 million total decline in the underlying portfolio valuation over the period relates to assets with building safety remediation requirements, and £3.5 million relates to the risk associated with proposed leasehold reform. These negative impacts were partly mitigated by a £1.9 million positive valuation movement as a result of portfolio rental growth.

Including adjustments made in prior periods, the aggregate valuation discounts for building safety and residential leasehold reform are £13.9 million and £4.6 million respectively, or £18.5 million in total. Our approach to managing these risks is set out in the 'Leasehold reform' and 'Building safety' paragraphs below.

Despite these headwinds, ground rent collection has remained in line with pre-pandemic collection rates levels. As at 1 June 2022, 88.9% of total ground rent income due for the financial year ending 30 September 2022 has been collected, which compares to 88.6% for the year ending 30 September 2021 and 82.8% for the year ending 30 September 2019 (pre-pandemic) (as at 1 June 2021 and 1 June 2019 respectively).

Dividend cover over the interim period was 103%, and we expect the dividend to be fully covered by earnings during the full year ending 30 September 2022.

Leasehold reform

In January 2021, the Government committed to reform the residential leasehold sector through two new pieces of legislation.

Firstly, the Government has banned the creation of new residential ground rents via the Leasehold Reform (Ground Rent) Act 2022, which comes into force on 30 June 2022. The legislation is not retrospective and, whilst it should not impact the Company's portfolio, it will reduce the supply of residential ground rents over time.

Secondly, a more wide-ranging piece of legislation is yet to be formally proposed but will seek to improve fairness and transparency in the residential housing market, including reforming the way in which leaseholders can acquire their landlord's interest (known as 'enfranchisement'), leaseholders' ability to take on management responsibilities for their buildings, and the regulation of property managers.

Interestingly, no further detail on leasehold reform was provided in the Queen's Speech in May 2022, with the Government instead prioritising other housing reforms, such as the planning process and social housing.

As highlighted previously, the Government intends to make the enfranchisement process 'easier, faster, fairer and cheaper' for leaseholders to extend their lease or acquire their freehold. Supported by recommendations from the Law Commission, this is still expected to include the following proposals:

- Reform to the calculation of the premium payable by a leaseholder to their landlord when they seek to buy their freehold or extend their lease, including:
  - Abolishing marriage value;
  - Capping the treatment of ground rent in the premium calculation at 0.1% of the property's unencumbered value (for example: on a long-lease apartment valued at £250,000, factored into the premium calculation would be calculated on the basis of a notional annual ground rent, capped at £250); and
  - Prescribing the capitalisation rates used at 'market value;'
- Allowing the partial enfranchisement of apartment blocks by way of an effective 'sale and leaseback' to the landlord; and
- Introducing an online calculator to simplify and standardise the calculations and processes.

The Government's proposal to abolish 'marriage value' should not impact the Company's portfolio as this is only relevant to short-dated leases. However, the proposals relating to prescribing capitalisation rates and capping ground rent are areas of concern for the Company and sector more generally, which could negatively impact the Company's portfolio and represent the inequitable treatment of landlords' legitimate property interests.

There is currently no clarity on the Government's approach to prescribing capitalisation rates. The most obvious risk is that premiums are determined with reference to today's rates and values, which since 2017 have been adversely affected by the anticipation of new legislation; a factor known as 'shadow blight'. We and other institutional owners have received legal advice that legislation enabling leaseholders to acquire freeholds at an unfair discount may infringe landlords' legitimate property interests under human rights law. This advice has been communicated to Government and we await their response.

The proposal to cap the ground rent to be capitalised in the premium calculation at 0.1% of the property's unencumbered freehold value is uncertain, but there is data available to illustrate the potential impact on the Company. During the period, we worked with Rightmove to analyse the proportion of the properties owned by the Group which would be potentially affected by this cap. The results of this analysis are summarised in the table below:

Portfolio*	Portfolio ground rent income (%)	Portfolio valuation (%)
Unlikely to be fully in scope of residential legislation	22.2	24.5
Residential ground rent and below 0.1%	27.7	26.5
Residential ground rent and between 0.1% and 0.2% (in aggregate/net above)	32.4/12.0	31.1/11.7
Residential ground rent and above 0.2% (in aggregate/net above)	13.4/4.9	13.6/5.1
Residential ground rent but underlying freehold value yet to be determined	4.3	4.3
Total (portfolio aggregate)	**100.0**	**100.0**

* Based on the independent portfolio valuation as at 30 September 2021.

The risk to value where residential ground rents are above 0.1% is arguably mitigated by relatively few leaseholders historically taking up their enfranchisement rights. For example, over the past three years, nine leaseholders per year have enfranchised across the current portfolio (representing 0.04% by value). The reasons for this include:

1. Leaseholders generally take up their enfranchisement rights to protect their own asset value, which is usually linked to the ability to obtain a mortgage. This would typically be when a lease term falls below 100 years, whereas the Company's portfolio has a weighted average unexpired lease term of 379 years.

2. The capital required by leaseholders to enfranchise is high relative to the low level of ground rent payable, which is compounded by a short average ownership period of residential property in the UK. For example, the Company's average residential ground rent is £250 per year and a typical apartment is owned for four years, whereas leaseholders are generally required to pay a premium based on a multiple of up to 30x ground rent to enfranchise.

3. Enfranchisement premiums over the past three years have, on average, been completed 39% above the prevailing investment valuation.

Given this analysis and context, the impact of enfranchisements may continue to be limited and the leasehold reform discount applied to the portfolio of £4.6 million at the period end may not be fully realised.

The Company has long argued for fair and sustainable leasehold reform. For example, since 2017, an asset management programme, called 'Project Pacific', has been in place to remove doubling residential ground rents from the portfolio. 446 or 15% of relevant leaseholders have since completed the offer. The Government's 2019 Public Pledge for Leaseholders extends the 'Project Pacific' programme indefinitely and information relating to it is available for leaseholders on the Company's website.

A significant proportion of Project Pacific completions relate to ground rents that were due to double more frequently than every 20 years, which now represent 2.5% of the Company's ground rent income and 1.3%, or £1.4 million, of the portfolio valuation. To accelerate the removal from the portfolio of such ground rents that may be considered onerous, relevant leaseholders have been provided with an improved offer.

Building safety reform

In January 2022, the Government reset its approach to building safety issues, emphasising the need for proportionality, protecting leaseholders, holding developers to account and prioritising government funding on higher-risk buildings. The Government also replaced proposals for leaseholder loans to help fund building safety remediation costs with a new pledge by developers and housebuilders to remediate defective buildings at their own cost, which has since been agreed with over 40 of the largest residential developers.

In April 2022, the Building Safety Act ("BSA") received Royal Assent which aims to improve building safety and standards and protect leaseholders from the costs of remediating building safety issues to do with the spread of fire or the collapse of the building on properties above 11 metres in height. The three key areas of the BSA legislation relating to building safety are outlined below.

Firstly, together with the housebuilders' pledge outlined in the Chair's Statement, cladding remediation costs are to be met by developers or other relevant third parties, with the ultimate backstop being the existing £5.1 billion Building Safety Fund ("BSF") for properties above 18 metres in height ("high-rise"). There is also a new £3.0 billion scheme, funded by a levy on new building control approvals, for properties between 11 and 18 metres in height ("mid-rise"). Neither landlords or leaseholders should, therefore, have to bear these costs. Consistent with the principle of proportionality, the Government considers there is no systemic fire safety issue in buildings below 11 metres in height ("low-rise").

Secondly, non-cladding remediation costs will cascade down what has been deemed a 'waterfall', with each step being triggered only if the higher levels produce insufficient money. In terms of liability, the waterfall is expected to work as follows:

1. The developer and other parties involved in the original development, including landlords linked to the developer, covering remediation costs under the housebuilders' pledge or other voluntary means.

2. The landlord seeking legal redress if the developer and other relevant parties are not willing to engage on voluntarily terms. Given the poor financial standing of many companies within the construction industry, as well as the cost and time of litigation, with no certainty of success and recoverability, we expect this step to be limited in scope.

3. The landlord who has no links to the original developer (i.e. is not at fault for creating the defects). This step is subject to a 'net worth' test described as more than 'N x £2 million', where 'N' is the number of buildings above 11 metres in height a 'landlord group' owns. As currently set out, we do not expect that the Company will be required under this test to contribute to remediation costs. However the Government has reserved the right to amend the test.

4. Qualifying leaseholders paying a capped contribution, which is usually £10,000, or £15,000 in Greater London. The Government's aim has been to protect leaseholders living in their own home, therefore 'non-qualifying' leaseholders, including professional buy-to-let investors (who own more than three properties in the UK) and commercial tenants in mixed use buildings, do not benefit from the BSA's protections.

5. Remainder of the non-cladding remediation costs apportioned between the landlord and any other parties with a freehold or superior lease interest in the building.

Investment Manager's Report continued

Finally, landlords, such as the Company, should benefit from more proportionate and consistent guidelines to manage building safety risks, with the Government expecting greater use of mitigations such as sprinklers and fire alarms, in place of unnecessary remediation work. Landlords are also due to benefit from greater powers to seek redress from those responsible for defects. The Government has stated that it will prohibit certain parties, such as developers, from the industry if they refuse to join its regulatory schemes, including contributing to relevant remedial works.

Over the period, industry funding to tackle the building safety crisis, such as from the housebuilders' pledge and industry levies, has increased to £12 billion, which is useful to compare to the Housing Select Committee's estimate of the total cost of remedying the crisis of up to £15 billion (carried out in 2020 under more stringent guidelines to assess external walls). The narrowing of this shortfall demonstrates policymakers' focus on the 'polluter pays' principle to remedy building safety defects.

Whilst the BSA represents progress in a challenging legislative area, the ultimate impact on the Company remains uncertain. As noted by the Chair, the Company did not act as developer of any of the buildings within its portfolio but may be subject to non-cladding remediation costs on properties above 11 metres in height within its portfolio, in the event that costs cascade down the 'waterfall'. Landlords are also at risk of having to carry out remedial works prior to recovery from relevant third parties. We are awaiting further clarity being provided on this legislation, including how to appropriately apportion risk and cost amongst stakeholders within a building, if or when needed. For example, around two thirds of the Company's residential leaseholders are buy-to-let investors and may not benefit from the BSA's protections.

We expect to mitigate a material amount of the risks and costs associated with known building safety issues, which should lead to an improvement in the relevant asset values. However, we are operating in a complex and rapidly evolving regulatory landscape and there is a risk that further building safety issues are identified or legislated for. It is also worth noting that other repair and maintenance costs remain recoverable from residential service charge accounts in the usual manner.

We continue to engage with Government (via the RICS and the British Property Federation) in order to ensure that the interests of all stakeholders are properly considered in relation to building safety regulation.

The Government has provided leaseholders with protections from the costs of remediating building safety issues on properties above 11 metres in height.

Mid-rise buildings (those between 11 and 18 metres in height) have only been brought into scope since January 2022 and the new legislation differentiates between how cladding and non-cladding remediation costs are to be treated.

High-rise buildings above 18 metres in height

Our current assessment is that 22 of the Company's 55 high-rise properties may require building safety remediation (excluding four properties where works have already been completed). Applications to the BSF have been made where relevant and 16 of the 22 assets were built by developers who have signed the Government's building safety pledge or are still in existence.

£11.6 million of the £13.9 million negative adjustment relates to these 22 buildings but funding from government or the housebuilders should be available to carry out these works without a material shortfall in professional fees or remediation costs needing to be covered by the Company or its leaseholders.

Mid-rise buildings between 11 and 18 metres in height

Our current assessment is that six of the Company's 61 mid-rise properties may require building safety remediation.

The largest three properties by portfolio valuation were built by developers who have signed the Government's building safety pledge or are still in existence, including one where works are already underway under warranty and at no cost to the Company.

Two further properties require investigation but were also built by developers who have signed the Government's building safety pledge or are still in existence.

The balance of the £13.9 million negative adjustment totalling £2.3 million relates to these mid-rise buildings and ultimate liability for these works could potentially fall to the Company, particularly if deemed non-cladding in nature. In all cases, leaseholders have been informed and mitigation measures are in place.

We continue to work collaboratively with leaseholders, Government, and other stakeholders to remediate affected developments.

Low-rise buildings under 11 metres in height

The Government considers that there is no systemic fire safety issue in buildings below 11 metres in height. This is because where concerns are identified, low-rise buildings often need little or no remediation to make them safe, instead relying on more proportionate, lower-cost mitigation where relevant. Some of the measures introduced by the BSA, such as the 'waterfall', do not apply to low-rise buildings but landlords and leaseholders will still be able to pursue those responsible for defects and associated costs via existing means and new redress measures available for all properties regardless of height.

All residential buildings with two or more dwellings are required to be managed in line with relevant legislation and RICS guidelines, which include fire and health and safety risk assessments.

Operational platform

We continue to work with service providers to improve the Company's operational platform and increase portfolio liquidity. Over the interim period this included:

- Completing the re-appointment of the property manager on terms aimed at improving service levels.
- Integrating property and investment manager data systems for a single source of information.
- Completing the consolidation of legal counsel and setting up a new electronic data site for portfolio information.
- Continuing to meet more demanding insurer due diligence requirements that follow the concept of the 'Golden Thread' of building information, since brought into law under the BSA.

These improvements support our delivery of best-in-class residential asset management and enable us to improve portfolio liquidity.

Real estate portfolio

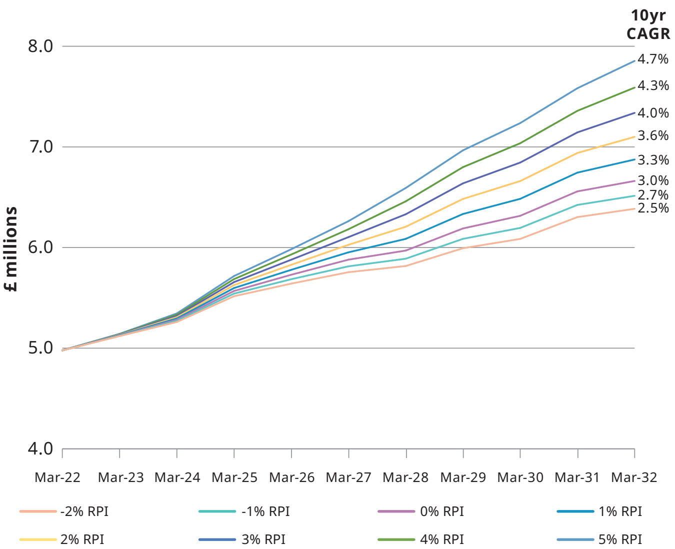
As at 31 March 2022, the portfolio comprised approximately 19,000 units across 392 assets valued at £110 million. The portfolio produces ground rent income of £5 million per annum, reflecting a gross income yield of 4.5% or an average Years Purchase ("YP") of 22.

The portfolio's weighted-average lease term as at 31 March 2022 was 379 years, with 94% of ground rent income subject to upwards only reviews. The rent reviews are set out in the table below:

Review Mechanism	Current ground rent income (£000)	Current ground rent income (%)	Valuation (£m)	Valuation (%)
Index-linked	3,570	71.7	86.1	78.2
Doubling	743	14.9	12.8	11.7
Fixed	342	6.9	6.6	6.0
Flat	323	6.5	4.5	4.1
	4,978	**100.0**	**110.0**	**100.0**

The chart below illustrates the 10-year forecast income performance based on various levels of RPI, which was 3.3% per annum over the ten years to April 2022, including the recent elevated levels.

Illustrative ground rent revenue – RPI sensitivity



Assuming inflation returns to its 10-year average, ground rent income should increase by approximately 23% over the next five years or 4.2% per annum, 90 basis points per annum above the assumption for future RPI.

RPI is due to be aligned with the Consumer Prices Index including owner occupiers' housing costs, known as 'CPIH', by 2030. However, in December 2021, the High Court granted the trustees of three large pension schemes a judicial review of the decision. The hearing is expected to take place in the summer of 2022.

The portfolio comprises residential apartments, houses and commercial units with median ground rents as summarised below:

Unit Type	Median ground rent (£)	Current ground rent (£000)	Current ground rent (%)	Valuation (£m)	Valuation (%)
Apartments	250	3,514	70.6	70.7	64.2
Houses	111	521	10.5	12.6	11.5
Residential subtotal	250	4,035	81.1	83.3	75.7
Student	401	803	16.1	22.5	20.5
Commercial	340	140	2.8	4.2	3.8
	250	**4,978**	**100.0**	**110.0**	**100.0**

The top 10 assets by value represent 28.4% of the total portfolio valuation as summarised below:

Property	Location	Valuation at 31 March 2022 (£ million)	% of portfolio	Property type
Lawrence Street Student Village	York	7.8	7.1	Student
Wiltshire Leisure Village	Royal Wootton Bassett	3.4	3.1	Residential
First Street	Manchester	3.2	2.9	Student
Rathbone Market	London	3.2	2.9	Residential
One Park West	Liverpool	3.1	2.9	Residential
Masshouse Plaza	Birmingham	3.0	2.7	Residential
Richmond House	Southampton	2.4	2.1	Residential
Brewery Wharf	Leeds	1.9	1.7	Residential
Portland House	Exeter	1.7	1.5	Student
City Island	Leeds	1.7	1.5	Residential
		31.4	**28.4**	

The geographic spread of the portfolio as at 31 March 2022 is shown in the chart below:

	Ground rent (£000)	Ground rent (%)	Valuation (£m)	Valuation (%)
North East	1,526	30.7	31.3	28.4
North West	1,416	28.4	30.2	27.4
London	602	12.1	13.1	11.9
Midlands	586	11.8	13.6	12.4
South West	508	10.2	13.3	12.1
South East	270	5.4	6.7	6.1
Wales	70	1.4	1.8	1.7
	4,978	**100.0**	**110.0**	**100.0**

Environmental, Social and Governance ("ESG")

The Manager and the Board believe that understanding environmental and social changes are vital to protect the Company's assets from depreciation and optimise the portfolio's value potential.

Owing to the nature and constraints of residential ground leases, where leaseholders retain most of the economic interest in their buildings and often the management responsibilities, the Company is limited in its ability to effect change in relation to environmental factors. However, the Company has greater ability to effect positive change in relation to social and governance factors. We provide our leaseholders and the directors of our residential management companies with regular updates on best practice relating to all aspects of property management.

This is particularly relevant in relation to concerns regarding unfair practices in the ground rent sector. We have consistently sought to deliver a high standard of service and value to leaseholders and have long argued for fair and appropriate leasehold reform. We have provided relevant residential leaseholders with an improved offer to incentivise the removal of those doubling ground rents (from our portfolio) that may be considered onerous.

Elsewhere, we continue to work extensively overseeing the resolution of complex remediation issues, including pursuing developers and others where relevant, to protect leaseholders from the building safety crisis.

We have also completed the re-appointment of the property manager on terms aimed at improving the service provided, including improved use of technology and increased alignment with our evolving ESG requirements. Since then, the property manager has appointed a community

Investment Manager's Report continued

engagement manager to help organise a diverse range of events to encourage a growing sense of community in, and about, the developments they manage. The property manager also recently introduced a "Go Paperless" initiative to incentivise leaseholders to use their online communications platform by donating £1 to a Woodland Trust tree planting initiative for every switch from paper correspondence. This has since led to the planting of 43 trees in relation to the Company's portfolio and the Company is to match this funding.

The Investment Manager will be including more detail in the Company's year-end results relating to ESG factors, including consideration of a net zero carbon commitment. Further information on Schroders' 'Sustainable Investment Real Estate with Impact' approach and the Investment Manager's Sustainability Policy: 'Real Estate with Impact' can be found here:

https://www.schroders.com/en/uk/realestate/products--services/sustainability/

Finance

The Company has a £25 million facility with Santander UK Plc comprising a £12.5 million term loan and a £12.5 million Revolving Credit Facility ("RCF"), which matures in January 2025.

The interest payable on the term facility is fixed at 2.68% per annum, while the RCF attracts a rate of 1.85% above 3-month SONIA per annum, subject to a cap of 1.0% on £5.5 million of the total £12.5 million. The total 'all in' interest rate is approximately 2.46% per annum.

At 10 May 2022, being the most recent interest payment and covenant compliance date, £21 million was drawn on the Company's RCF and term loan combined. The Loan to Value ("LTV") on the charged pool of assets, based on the bank's valuation of £63.6 million as at January 2020, is 33% versus a covenant of 50%, and £4 million of the facility remains undrawn.

Facility	Loan drawn	'All in'[1] Maturity	interest rate	LTV[2]	LTV ratio covenant	Interest[3] cover ("IC") ratio	IC ratio covenant
£25 million total	£21 million	Jan-25	2.46%	33%	50%	405%	270%

[1]Total 'all in' interest rate based on the LIBOR rate applicable to the RCF as at the Interest Payment Date ("IPD") of 10 May 2022.

[2]Loan balance divided by Santander secured portfolio bank valuation of £63.6 million as at January 2020. Based on the latest valuation to be finalised, the LTV would be approximately 41.7%. See note 6 to the financial statements for further details.

[3]For the quarter preceding the IPD, ((rental income received less void holding costs)/interest payable).

The Company has £62 million of uncharged assets as per the Company's independent portfolio valuation by Savills at 31 March 2022 and the Group level LTV based on gross assets (per the same independent valuation) is 19.1% against the prospectus restriction of 25%.

During the interim period Santander called for a periodic revaluation of the charged pool of assets, which is to be finalised at approximately £50.3 million, broadly in line with the view of the Company's independent valuer.

Finally, the facility has also transitioned from using the London Interbank Offered Rate ("LIBOR") to the Sterling Overnight Index Average ("SONIA") for interest payments due post 31 December 2021. There has been minimal impact on the Company from this change.

Outlook

This remains a challenging operational environment for the Company, reflected in the discounts and valuation uncertainty attributed to the portfolio, albeit with the potential that these discounts may not be fully realised.

In advance of the Continuation Vote in 2023, we will continue to focus on improving portfolio liquidity and take all steps necessary to ensure building safety and other risks are managed efficiently to protect shareholder value, whilst ensuring that our leaseholders are safe in their homes.

Chris Leek
Investment Manager
Schroder Real Estate Investment Management Limited
29 June 2022

Directors' Report

Principal risks and uncertainties

A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 17 to 19 of the Company's published Annual Report and Consolidated Financial Statements for the year ended 30 September 2021.

The principal risks and uncertainties associated with the Company's business fall into the following risk categories: political, operational, asset, valuation/liquidity, investment policy and strategy, service provider, custody, cyber, accounting, legal and regulatory.

This list of risks and uncertainties have not materially changed during the six months ended 31 March 2022. However, these risks are being monitored closely.

Going concern

The Board has examined significant areas of possible financial risk and has reviewed cash flow forecasts and compliance with the debt covenants, in particular the LTV covenant and interest cover ratio, as described more fully in note 1 to the financial statements. It has not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Company Articles of Association contain provisions for continuation votes to be held at specified intervals. The first continuation vote is due to be put forward at an EGM before August 2023. No date has been specified and the outcome of any vote is not yet known. The Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- The Half Year report and condensed consolidated interim financial statements have been prepared in accordance with the UK adopted IAS 34 Interim Financial Reporting; and
- The Half Year Report includes a fair review of the important events that have occurred during the first six months of the financial year, their impact on the condensed consolidated interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year and any relevant related party transactions.

Barry Gilbertson
Chair
29 June 2022

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 March 2022

	Note	**Unaudited 6 months to 31 March 2022 £**	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
Continuing operations				
Revenue	2	**2,762,542**	2,853,484	5,693,787
Operating expenses	3	**(993,743)**	(1,303,519)	495,092
Profit on sale of investment properties		**22,770**	28,180	340,774
Net revaluation loss on investment properties	5	**(9,408,120)**	(516,220)	(4,731,925)
Operating (loss)/profit		**(7,616,551)**	1,061,925	1,797,728
Analysed as				
Operating (loss)/profit before exceptional items		**(7,616,551)**	1,291,822	(605,414)
Disposal/litigation costs		**–**	(229,897)	(496,858)
Release of provision for remedial works not required		**–**	–	2,900,000
Operating (loss)/profit		**(7,616,551)**	1,061,925	1,797,728
Finance income		**109**	462	618
Finance expenses	4	**(316,086)**	(289,171)	(605,440)
Net finance expense		**(315,977)**	(288,709)	(604,822)
(Loss)/profit before tax		**(7,932,528)**	773,216	1,192,906
Taxation		**–**	–	–
(Loss)/profit after tax and total comprehensive (loss)/income		**(7,932,528)**	773,216	1,192,906
(Loss)/earnings per share				
Basic	8	**(8.25p)**	0.80p	1.23p
Diluted	8	**(8.25p)**	0.80p	1.18p

The accompanying notes on pages 14 to 21 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

As at 31 March 2022

	Note	**Unaudited 31 March 2022 £**	Unaudited 31 March 2021 £	Audited 30 September 2021 £
Assets				
Non current assets				
Investment properties	5	**109,969,000**	123,628,000	119,380,000
		109,969,000	123,628,000	119,380,000
Current assets				
Trade and other receivables		**2,085,518**	2,532,323	1,833,250
Interest rate derivative contracts	7	**38,777**	27,380	35,961
Cash and cash equivalents		**1,915,741**	1,534,815	1,090,027
		4,040,036	4,094,518	2,959,238
Total assets		**114,009,037**	127,722,518	122,339,238
Liabilities				
Non current liabilities				
Financial liabilities measured at amortised cost	6	**(20,670,941)**	(19,051,283)	(19,111,112)
Provision for liabilities	14	**–**	(2,900,000)	–
		(20,670,941)	(21,951,283)	(19,111,112)
Current liabilities				
Trade and other payables		**(3,793,338)**	(4,360,635)	(3,513,957)
Total liabilities		**(24,464,279)**	(26,311,918)	(22,625,069)
Net assets		**89,544,758**	101,410,600	99,714,169
Equity				
Share capital	10	**47,833,748**	48,503,248	48,373,248
Capital redemption reserve		**669,500**	–	130,000
Retained earnings		**48,974,038**	52,134,136	50,018,015
(Loss)/profit for the financial year		**(7,932,528)**	773,216	1,192,906
Total equity		**89,544,758**	101,410,600	99,714,169
Net asset value per ordinary share				
Basic	9	**93.6p**	104.5p	103.1p
Diluted	9	**93.9p**	104.3p	102.9p

The unaudited condensed consolidated interim financial statements on pages 10 to 21 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Barry Gilbertson
Director
29 June 2022

Bill Holland
Director

Ground Rents Income Fund plc
Company registered number: 08041022

The accompanying notes on pages 14 to 21 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 March 2022

	Note	**Unaudited 6 months to 31 March 2022 £**	Unaudited 6 months to 31 March 2021 £	Audited Year ended 30 September 2021 £
Cash flows from operating activities				
Cash generated from operations	12	**1,795,912**	1,192,205	2,779,236
Interest paid on bank loan and bank charges		**(258,959)**	(246,854)	(507,585)
Net cash generated from operating activities		**1,536,953**	945,351	2,271,651
Cash flows from investing activities				
Interest received		**109**	462	618
Receipts from the sale of investment properties		**25,535**	73,972	418,849
Net cash proceeds from investing activities		**25,644**	74,434	419,467
Cash flows from financing activities				
Bank loan receipts		**1,500,000**	–	–
Net cash used in share buyback		**(795,188)**	–	(195,392)
Dividends paid to shareholders	11	**(1,441,695)**	(1,920,728)	(3,841,457)
Net cash used in financing activities		**(736,883)**	(1,920,728)	(4,036,849)
Net increase/(decrease) in cash and cash equivalents		**825,714**	(900,943)	(1,345,731)
Net cash and cash equivalents at the beginning of the period		**1,090,027**	2,435,758	2,435,758
Net cash and cash equivalents at the end of the period		**1,915,741**	1,534,815	1,090,027

The accompanying notes on pages 14 to 21 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the period ended 31 March 2022

	Share capital £	Capital redemption reserve £	Retained earnings £	Total £
At 1 October 2020	**48,503,248**	**–**	**54,054,864**	**102,558,112**
Comprehensive income				
Profit for the period	–	–	773,216	773,216
Total comprehensive income	**–**	**–**	**773,216**	**773,216**
Transactions with owners				
Dividends paid	–	–	(1,920,728)	(1,920,728)
At 31 March 2021 (unaudited)	**48,503,248**	**–**	**52,907,352**	**101,410,600**
Comprehensive income				
Profit for the period	–	–	419,690	419,690
Total comprehensive income	**–**	**–**	**419,690**	**419,690**
Transactions with owners				
Buyback of ordinary shares	(130,000)	130,000	(195,392)	(195,392)
Dividends paid	–	–	(1,920,729)	(1,920,729)
At 30 September 2021	**48,373,248**	**130,000**	**51,210,921**	**99,714,169**
Comprehensive loss				
Loss for the period	–	–	(7,932,528)	(7,932,528)
Total comprehensive loss	**–**	**–**	**(7,932,528)**	**(7,932,528)**
Transactions with owners				
Buyback of ordinary shares	(539,500)	539,500	(795,188)	(795,188)
Dividends paid	–	–	(1,441,695)	(1,441,695)
At 31 March 2022 (unaudited)	**47,833,748**	**669,500**	**41,041,510**	**89,544,758**

The accompanying notes on pages 14 to 21 form an integral part of the unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2022

1. Significant accounting policies

Ground Rents Income Fund plc (the "Company") is a closed-ended investment company registered in England and Wales as a public company limited by shares. The Company's registered address is 1 London Wall Place, London, EC2Y 5AU. The condensed consolidated interim financial statements of the Company for the period ended 31 March 2022 comprise those of the Company and its subsidiaries (together referred to as the "Group"). These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2021 were approved by the Board of Directors on 16 December 2021 and were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting. They do not include all the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 September 2021.

The condensed consolidated interim financial statements have been prepared on the basis of the accounting policies set out in the Group's consolidated financial statements for the year ended 30 September 2021 and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. The Group's consolidated financial statements for the year ended 30 September 2021 refer to new Standards and Interpretations, none of which had a material impact on these condensed consolidated interim financial statements.

Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 31 March 2022 and have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments, which have been measured at fair value. The functional and presentational currency is sterling.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flows of the entities included in the condensed consolidated interim financial statements and are consistent with those of the year-end financial report.

Going concern

The Directors have examined significant areas of possible financial risk including: the non-collection of rent as a result of the Covid-19 pandemic, the potential resulting falls in property valuations, and the future implications of potential leasehold reform. The Investment Manager has prepared detailed forward-looking cash flow forecasts with downside analysis, and third-party debt headroom and covenant calculations, in particular the Loan to Value covenant and Interest Cover ratios.

The Board and Investment Manager continue to monitor the ongoing impact of the Covid-19 pandemic on Group rental collection, which has remained strong during the period and to the date of this report. The Company's dividend policy is reviewed regularly to ensure the Company's liquid resources will be sufficient to cover any working capital requirements, while conforming to the requirement to distribute dividends in accordance with REIT regulations. Further details can be found within the Chair's statement on pages 2 and 3 and the Directors' Report on page 9.

The Group holds a loan facility with Santander. Half of the facility is a £12.5 million fixed rate loan attracting a total interest rate of 2.68% per annum. The Group also holds a £12.5 million revolving credit facility ("RCF") with Santander. As at the period end, the undrawn capacity was £4 million. The RCF is an efficient and flexible source of funding at an interest rate of 1.85% per annum plus SONIA ("Sterling Overnight Index Average") which can be repaid and redrawn as often as required. The maturity date is January 2025.

In addition to the matters described above, in arriving at their conclusion the Directors have also considered:

- The Group's consolidated liquidity position, and undrawn debt facility with Santander, at the period end. This sum is deemed to provide more than sufficient headroom for the Group to meet its liabilities as they fall due (the nature and timing of the majority of the Group's expenses can be predicted with reasonable accuracy). As at 31 March 2022, cash held was £1.9 million and the undrawn RCF remained at £4 million – the combined total being £5.9 million, thereby still giving more than adequate headroom in view of the Group's cost base;

- Forward-looking compliance with third party debt covenants and in particular Loan-To-Value ("LTV") covenants and Interest Cover ratios;

- Recent rent and service charge collection statistics;

- Ongoing REIT compliance in view of distribution requirements; and

- The requirement for the Directors to propose a continuation vote, to be proposed before August 2023.

1. Significant accounting policies continued

No matters or any material uncertainties have been identified which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the condensed consolidated interim financial statements.

The Directors have therefore satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board considers it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the Group.

Use of estimates and judgements
The preparation of interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These 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 judgements 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. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant estimates are:

- **Carrying value of investment properties**
  Investment properties, as disclosed in note 5, are stated at fair value. Fair value is inherently subjective because the valuer makes assumptions which may not prove to be accurate. The Group uses external professional valuers to determine the relevant amounts.

- **Expected credit loss**
  IFRS 9 requires an impairment review to be made for certain financial assets held on the Group's balance sheet using a forward-looking expected credit loss model. Where any impairment is required to be made, appropriate recognition is required within the Group financial statements, together with appropriate disclosures.

There are no significant judgements made by management in the application of IFRS, with no corresponding material impact on these condensed consolidated interim financial statements of the Group.

Exceptional items
The Group's Condensed Consolidated Interim Statement of Comprehensive Income separately identifies exceptional items. Such items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size or incidence. In determining whether an item should be disclosed as an exceptional item, the Directors consider quantitative as well as qualitative factors such as frequency, predictability of occurrence and significance. This is consistent with the way the financial performance is managed by the Investment Manager and reported to the Directors. Disclosing exceptional items separately provides additional understanding of the performance of the Group.

2. Segmental information

The Directors are of the opinion that the Group is engaged in a single segment of business, being the collection of ground rent from its investment properties. The Group receives some ancillary income to which it is entitled as a result of its position as property freeholder or head leaseholder.

Schroders acts as adviser to the Board of Directors, who then make management decisions after considering its recommendations. As such, the Board is considered to be the chief operating decision maker. A set of consolidated IFRS information is provided to the Board on a quarterly basis.

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
By activity:			
Ground rent income accrued in the period	**2,442,449**	2,469,772	4,942,648
Other income falling due within the period	**320,093**	383,712	751,139
	2,762,542	2,853,484	5,693,787

All income of the Group is derived from activities carried out within the United Kingdom. The Group is not reliant on any one property or group of connected properties for the generation of its revenues.

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2022

3. Operating expenses

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
Directors' salaries	**78,089**	70,977	94,460
Auditors' remuneration	**90,000**	105,981	169,950
Management fees	**485,983**	517,971	987,499
Professional fees excluding exceptional items	**232,907**	185,023	374,352
Insurance	**13,142**	12,072	24,612
Listing sponsor fees	**28,900**	28,960	52,511
Valuation fees	**25,115**	28,772	47,502
Registrar fees	**8,670**	21,877	63,864
Listing fees	**4,682**	21,884	11,765
Public relations and printing costs	**11,271**	6,487	25,426
Other operating expenses	**14,984**	73,618	56,109
Operating expenses before exceptional items	**993,743**	1,073,622	1,908,050
Disposal/litigation costs	**–**	229,897	496,858
Release of provision for remedial works	**–**	–	(2,900,000)
Total operating expenses	**993,743**	1,303,519	(495,092)

Disposal/litigation costs were incurred in connection with Beetham Tower, the investment property sold by the Group in August 2021. The provision, now released, for remedial works was a provision under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, again in connection with Beetham Tower. Please see note 14 for further details.

4. Finance expenses

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited Year ended 30 September 2021 £
Loan interest payable	**238,531**	232,255	466,835
Amortisation of loan arrangement fees and bank charges	**80,371**	70,138	160,408
Net change in fair value of financial instruments	**(2,816)**	(13,222)	(21,803)
	316,086	289,171	605,440

Total capitalised loan arrangement and associated professional fees of £0.3 million at the period end date are to be amortised over the remaining loan term to January 2025. See note 6 for further details.

5. Investment properties

Fair value	£
At 30 September 2020 (audited)	124,190,000
Disposals	(45,780)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(516,220)
At 31 March 2021 (unaudited)	123,628,000
Disposals	(32,295)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(4,215,705)
At 30 September 2021 (audited)	119,380,000
Disposals	(2,880)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(9,408,120)
At 31 March 2022 (unaudited)	109,969,000

Key assumptions within the basis of fair value are:
Fair value hierarchy
Non-financial assets carried at fair value, as is the case for investment property held by the Group, are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement'.

The fair value hierarchy has the following levels:
Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

All investment property held by the Group is classified as Level 3.

There have been no transfers between levels of the fair value hierarchy during the period.

The value of each of the properties has been assessed in accordance with the relevant parts of the Royal Institution of Chartered Surveyors' Valuation – Global Standards (incorporating the IVSC International Valuations Standards) effective from 31 January 2022 together where applicable with the UK National Supplement effective 14 January 2019, together the "Red Book", which is consistent with IFRS 13 measurement requirements.

The RICS Red Book provides two definitions of fair value. The one appropriate for the IFRS basis of accounting is as follows:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

The commentary under VPS 4 (1.5.3) of the Red Book states that, for most practical purposes, fair value is consistent with the concept of market value and there is no difference between the two.

The Group's investment property was revalued at 31 March 2022 by Savills. The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable recent market transactions on an arm's length basis.

The valuer within Savills is a RICS Registered Valuer. The valuation of ground rent investment properties takes into account external factors such as interest rates and the availability of other fixed rate investments in the market.

The valuation of a ground rent investment property is principally dependent on the aggregate income generated, and the potential for this to increase in future through rent reviews. The most valuable ground rent investment property assets are those which are RPI-linked with reviews every 10 years or less. Other types of ground rents are 'doubling' where the rent doubles at a fixed time interval and 'fixed increases' where the uplifts are fixed and detailed in the lease. The least attractive ground rents are those which are flat with no future rental increases which attract the lowest Years Purchase ("YP") multiple and the highest yield.

The properties have been valued individually and not as part of a portfolio.

In response to recently announced proposed amendments to the Building Safety Bill by the Government and the uncertainty surrounding leasehold and building safety reform, Savills have applied a Material Valuation Uncertainty Clause to the valuation as at 31 March 2022. This is in respect of assets where there is a building safety valuation adjustment, including buildings over 11 metres tall, which represents 23% of the portfolio valuation. Savills have confirmed that the aggregate valuation adjustment for fire safety risks, including adjustments made in prior periods, now amounts to £13.9 million at the period end. It is important to note that the majority of this valuation adjustment is not attributable to known building issues, but instead reflects a general discount to the value of affected building where building safety remediation issues or costs are unknown or uncertain, whether this is likely to be a liability to the Company, or not.

The Board and Manager are highly cognisant of these risks and have instructed third party building consultant inspections where relevant on the Company's 61 mid-rise buildings. Based on these inspections, together with information from relevant third party management companies and original developers, our current assessment is that six of these properties may require building safety remediation. In all cases, leaseholders have been informed and mitigation measures are in place.

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2022

5. Investment properties continued

The Board expects to mitigate a material quantum of the risks and costs associated with known building safety issues, which should lead to an improvement in the relevant asset values. However, as stated in all shareholder reports, we are operating in a complex and rapidly evolving Government-led regulatory landscape and there is always a risk that further building safety issues are identified or legislated for.

Further discounts have been applied to reflect the risk associated with proposed leasehold reform by the Government in the residential leasehold sector. Including discounts applied in prior periods, these amount to £4.6 million.

The aggregate valuation discount for leasehold and building safety reform is £18.5 million in total.

Sensitivity analysis

The table below shows the principal sensitivity to the key valuation metrics and the resultant change to the valuation.

+/- effect on valuation - impact on fair value of 1 YP change (£)	Indexed	Doubling	Fixed increases	Flat
At 31 March 2021	3,531,000	742,000	330,000	325,000
At 30 September 2021	3,486,000	742,000	330,000	323,000
At 31 March 2022	**3,570,000**	**743,000**	**342,000**	**323,000**

The average YP across the portfolio is 22.1 (30 September 2021: 24.5; 31 March 2021: 25.1).

6. Financial liabilities measured at amortised cost

	Unaudited 31 March 2022 £	Unaudited 31 March 2021 £	Audited 30 September 2021 £
Borrowings repayable in more than one year	**21,000,000**	19,500,000	19,500,000
Capitalised loan arrangement fees net of amortisation	**(329,059)**	(448,717)	(388,888)
	20,670,941	19,051,283	19,111,112

The Group utilises a loan facility with Santander UK plc totalling £25 million. Of the total amount drawn, £12.5 million is held as a term loan, matures on 10 January 2025 and carries a fixed interest rate of approximately 2.68% per annum, payable quarterly. The remaining £8.5 million is held within a coterminous £12.5 million RCF, which carries an interest rate per annum of 1.85% plus SONIA, payable quarterly.

An additional fixed fee of 0.74% per annum is payable on amounts undrawn under the RCF. The facility was subject to a £0.25 million arrangement fee which is being amortised over the term of the loan.

The lender has charges over certain investment property owned by the Group with an aggregate value of £63.6 million as valued at January 2020. A pledge of all shares in the borrowing Group company and loan obligor companies is in place.

As at 31 March 2022, the loan facility was secured over assets held in the following Group companies: Admiral Ground Rents Limited, Clapham One Ground Rents Limited, GRIF040 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Masshouse Block HI Limited, Masshouse Residential Block HI Limited, OPW Ground Rents Limited, The Manchester Ground Rent Company Limited and Wiltshire Ground Rents Limited.

No security or guarantee exists in relation to the facility over any other Group assets or assets within the parent company.

The combined facility has a LTV covenant of 50% and Interest Cover covenant of 270%. The Group was in full compliance with the covenants throughout the period. As at 10 May 2022, being the most recent quarterly interest payment and covenant compliance test date, the actual LTV over secured assets was 33% with headroom of £21.6 million and interest cover was 405.4% with rental income headroom of £0.7 million, based on the January 2020 valuation of £63.6 million.

A further valuation was conducted on behalf of the lender during the interim period and is due to be finalised at approximately £50.3 million, broadly in line with the view of the Company's independent valuer. The revised LTV over secured assets would be approximately 41.7% with headroom of £8.3 million.

Group borrowings

As at 31 March 2022, Group borrowings were 19.1% (30 September 2021: 16.3%; 31 March 2021: 15.8%) of non-current assets.

7. Derivative financial instruments

The Company has an interest rate cap in place purchased for £50,650 from Banco Santander SA in connection with the £12.5 million RCF drawn from Santander UK plc with a maturity date of 10 January 2025. The cap interest rate is 1% with a floating rate option being SONIA. In line with IFRS 9 this derivative is reported in the financial statements at its fair value. As at 31 March 2022 the fair value of the interest cap was £38,777 reflecting a decline in the interest rate curve since the interest rate cap was purchased.

8. Basic and diluted (loss)/earnings per share

Basic (loss)/earnings per share

(Losses)/earnings used to calculate (loss)/earnings per share in the financial statements were:

	Unaudited 31 March 2022 £	Unaudited 31 March 2021 £	Audited 30 September 2021 £
(Losses)/earnings attributable to equity shareholders of the Company	**(7,932,528)**	773,216	1,192,906

8. Basic and diluted (loss)/earnings per share continued

Basic (loss)/earnings per share has been calculated by dividing (losses)/earnings by the weighted average number of shares in issue throughout the period.

Weighted average number of shares	**96,159,426**	97,006,497	96,996,881
Basic (loss)/earnings per share	**(8.25p)**	0.80p	1.23p

Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is the basic (losses)/earnings per share, adjusted for the effect of contingently issuable warrants in issue in the period, weighted for the relevant periods. There was no potential impact of warrants for the period to 31 March 2022.

Diluted (loss)/earnings per share	**(8.25p)**	0.80p	1.18p

9. Net asset value per ordinary share

The net asset value ("NAV") per ordinary share is calculated by dividing the total net asset value in the financial statements by the total number of ordinary shares in issue. The diluted NAV per ordinary share is calculated after assuming the exercise of all outstanding warrants at £1, which would increase the aggregated NAV by £4,423,876.

	Unaudited 31 March 2022 £	Unaudited 31 March 2021 £	Audited 30 September 2021 £
Net assets	**89,544,758**	101,410,600	99,714,169
	Number	Number	Number
Number of ordinary shares in issue	**95,667,497**	97,006,497	96,746,497
Outstanding warrants in issue	**4,423,876**	4,423,876	4,423,876
Diluted number of shares in issue	**100,091,373**	101,430,373	101,170,373
NAV per ordinary share – basic	**93.6p**	104.5p	103.1p
NAV per ordinary share – diluted	**93.9p**	104.3p	102.9p

10. Share capital and capital redemption reserve

	Number of shares	Share capital £	Capital redemption reserve £
At 31 March 2021	97,006,497	48,503,248	–
Share buyback	(260,000)	(130,000)	130,000
At 30 September 2021	96,746,497	48,373,248	130,000
Share buyback	**(1,079,000)**	**(539,500)**	**539,500**
At 31 March 2022	**95,667,497**	**47,833,748**	**669,500**

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2022

10. Share capital and capital redemption reserve continued

Warrants were issued for £nil consideration on the basis of one warrant for every five subscription shares in August 2012. Warrant-holders have the right to subscribe £1 per share for the number of ordinary shares to which they are entitled on 31 August each year following admission up to and including 31 August 2022. At 31 March 2022, 30 September 2021 and 31 March 2021 there were 4,423,876 warrants in issue.

At the Company's AGMs in March 2021 and February 2022, the Company was given the authority to purchase up to 14.99% of its issued share capital. In September 2021 the Company commenced an open market share buyback programme with the aim to deliver shareholder value and narrow the discount to NAV.

As at 31 March 2022, the Company had repurchased 1,339,000 shares deploying distributable reserves. To preserve the Company's capital, the Company has transferred to a capital redemption reserve an amount equivalent to the nominal value of the shares acquired, being £669,500, of which £539,500 arose in the period.

11. Dividends

It is the policy of the Company to pay quarterly interim dividends to ordinary shareholders.

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
Dividends declared by the Company during the period:			
Dividends paid	**1,441,695**	1,920,728	3,841,457
Analysis of dividends by type:			
Interim PID dividend of 0.99p per share	**–**	960,364	960,364
Interim PID dividend of 0.99p per share	**–**	960,364	960,364
Interim PID dividend of 0.99p per share	**–**	–	960,364
Interim PID dividend of 0.99p per share	**–**	–	960,365
Interim PID dividend of 0.75p per share	**722,179**	–	–
Interim PID dividend of 0.75p per share	**719,516**	–	–
	1,441,695	1,920,728	3,841,457

Since the period ended 31 March 2022, the Company announced an interim PID dividend of 0.75p per share (£717,506), with an ex-dividend date of 1 June 2022, to be paid on 30 June 2022 to shareholders on the register as at 6 June 2022.

12. Cash generated from operations

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
Reconciliation of (loss)/profit before tax to cash generated from operations			
(Loss)/profit before tax	**(7,932,528)**	773,216	1,192,906
Adjustments for:			
Net revaluation loss on investment properties	**9,408,120**	516,220	4,731,925
Profit on sale of investment properties	**(22,770)**	(28,180)	(340,774)
Net finance expense	**315,977**	288,709	604,822
Exceptional items – release of provision for remedial works not required	**–**	–	(2,900,000)
Operating cash flows before movements in working capital	**1,768,799**	1,549,965	3,288,879
Movements in working capital:			
(Increase)/decrease in trade and other receivables	**(252,268)**	(679,908)	19,165
Increase/(decrease) in trade and other payables	**279,381**	322,148	(528,808)
Cash generated from operations	**1,795,912**	1,192,205	2,779,236

13. Related party transactions

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation.

Schroders is paid a simplified, tiered annual fee comprising 1% of NAV up to £200 million, 0.9% of NAV between £200 million and £400 million, and 0.8% of NAV above £400 million. Transactions between Schroders and the Company during the financial period were as follows:

	Unaudited 6 months to 31 March 2022 £	Unaudited 6 months to 31 March 2021 £	Audited year ended 30 September 2021 £
Investment management fee payable to Schroders	**485,983**	517,971	987,499

14. Provisions for liabilities

At 30 September 2020, the Directors introduced a provision of £2.9 million in North West Ground Rents Limited ("NWGR"), a wholly-owned subsidiary of the Group, in connection with Beetham Tower, Manchester (the "Property"). The provision reflected tendered costs for the remedial works ordered by the High Court of approximately £8.9 million, reduced by amounts that would have been payable by leaseholders and estimated recoveries from third parties.

In July 2021, the Group transferred the freehold interest in the Property to its wholly-owned subsidiary GRIF027 Limited, which was then sold in August 2021 to a private investor for a nominal consideration. The disposal released the Company and its subsidiaries from all current litigation and freeholder obligations relating to the Property that was originally acquired in 2012 and the provision was subsequently released in the financial year ending 30 September 2021 to Operating expenses in the Condensed Consolidated Interim Statement of Comprehensive Income.

Following the transaction, NWGR entered a formal liquidation process and the Group released ultimate control over the subsidiary, with no further expected financial consequences for the Group.

15. Other financial commitments and contingencies

The Company acts as guarantor for the payment of annual insurance premiums through credit facilities for a number of insured investment properties within its portfolio, where annual premiums are over £30,000 per annum. Premiums guaranteed total approximately £220,000 at the period end date and the Company expects all premiums to be met by the leaseholders in line with lease terms.

AIFMD remuneration disclosures for Schroder Real Estate Investment Management Limited ('SREIM') for the year to 31 December 2021

Remuneration disclosures
These disclosures form part of the non-audited section of this interim report and accounts and should be read in conjunction with the Schroders plc Remuneration Report on pages 77 to 99 of its 2021 Annual Report & Accounts (available on its website – https://www.schroders.com/en/investor-relations/results-and-reports/annual-reportand-accounts-2021/), which provides more information on the activities of SREIM's Remuneration Committee and its remuneration principles and policies.

The AIF Material Risk Takers ('AIF MRTs') of SREIM are individuals whose roles within the Schroders Group can materially affect the risk of SREIM or any AIF fund that it manages. These roles are identified in line with the requirements of the AIFM Directive and guidance issued by the European Securities and Markets Authority.

The Remuneration Committee of Schroders plc has established a remuneration policy to ensure the requirements of the AIFM Directive are met for all AIF MRTs. The Remuneration Committee and the Board of Schroders plc review remuneration strategy at least annually. The directors of SREIM are responsible for the adoption of the remuneration policy, for reviewing its general principles at least annually, for overseeing its implementation and for ensuring compliance with relevant local legislation and regulation. During 2021 the Remuneration Policy was reviewed to ensure compliance with the UCITS/AIFMD remuneration requirements and no significant changes were made.

The implementation of the remuneration policy is, at least annually, subject to independent internal review for compliance with the policies and procedures for remuneration adopted by the Board of SREIM and the Remuneration Committee. The most recent review found no fundamental issues but resulted in a range of more minor recommendations, principally improvements to process and policy documentation.

The total spend on remuneration is determined by reference to a total compensation ratio, measuring total remuneration expense against net income. This ensures that the interests of employees are aligned with Schroders financial performance. In determining the remuneration spend each year, the underlying strength and sustainability of the business is taken into account, along with reports on risk, legal, compliance and internal audit matters from the heads of those areas.

The remuneration data that follows reflects amounts paid in respect of performance during 2021.

- The total amount of remuneration paid by SREIM to its staff is nil as SREIM has no employees. Employees of SREIM or other Schroders Group entities who serve as Directors of SREIM receive no additional fees in respect of their role on the Board of SREIM.
- The following disclosures relate to AIF MRTs of SREIM. Those AIF MRTs were employed by and provided services to other Schroders group companies and clients. In the interests of transparency, the aggregate remuneration figures that follow reflect the full remuneration for each SREIM AIF MRT. The aggregate total remuneration paid to the 74 AIF MRTs of SREIM in respect of the financial year ended 31 December 2021 is £69.07 million, of which £47.92 million was paid to senior management, £17.16 million was paid to MRTs deemed to be taking risk on behalf of SREIM or the AIF funds that it manages and £3.99 million was paid to control function MRTs.

For additional qualitative information on remuneration policies and practices see www.schroders.com/rem-disclosures.

Leverage disclosure for Ground Rents Income Fund Plc (the "Group")
In accordance with AIFMD the Group is required to make available to investors information in relation to leverage. Under AIFMD, leverage is any method by which the exposure of the Group is increased through the borrowing of cash or securities, leverage embedded in derivative positions or by another means.

It is expressed as a ratio between the total exposure of the Group and its net asset value and is calculated in accordance with the "Gross method" and the "Commitment method" as described in the AIFMD. The Gross method represents the aggregate of all the Group's exposures other than cash balances held in the base currency, while the Commitment method, which is calculated on a similar basis, may also take into account cash and cash equivalents, netting and hedging arrangements, as applicable.

The Investment Manager has set the expected maximum leverage percentages for the Group and calculated the actual leverages as at 31 December 2021 as shown below (the Group calculates and externally reports its leverage one quarter in arrears):

	Maximum limit set	Actual as at 31 December 2021
Gross leverage	175%	123%
Commitment leverage	175%	124%

There have been no changes to the maximum levels of leverage employed by the Group nor any breaches of the maximum levels during the financial reporting period.

Glossary

AGM means the Annual General Meeting of the Company.

AIFM means the Company's alternative investment fund manager under AIFMD, Schroder Real Estate Investment Management Limited.

AIFMD means the Alternative Investment Fund Managers Directive (Directive 2011/61/EU), as transposed into UK law.

Articles means the Company's Articles of Association, as amended from time to time.

Companies Act means the Companies Act 2006.

Company is Ground Rents Income Fund plc.

Directors means the directors of the Company as at the date of this document and their successors and 'Director' means any one of them.

Disclosure Guidance and Transparency Rules means the disclosure guidance and transparency rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.

Earnings per share ("EPS") is the profit after taxation divided by the weighted average number of shares in issue during the year.

FCA is the UK Financial Conduct Authority.

Gearing is the Group's net debt as a percentage of net assets.

Group is the Company and its subsidiaries.

Interest cover is the number of times Group net interest payable is covered by Group net rental income.

IPO is the initial placing and offer made pursuant to a prospectus dated 24 July 2012.

Loan to value ("LTV") is a ratio which expresses the gearing within the Group by dividing the outstanding loan amount by the value of the assets on which the loan is secured.

LSE is the London Stock Exchange.

MUC is the material valuation uncertainty clause included in the Company's valuation

Net asset value ("NAV") is the value of total assets minus total liabilities.

NAV total return is a measure of value performance over a period of time and is calculated by expressing as a percentage the change in the NAV per share, plus dividends paid per share, during the period.

Net rental income is the rental income receivable in the year after payment of ground rents and net property outgoings.

RCF is a revolving credit facility.

TISE is The International Stock Exchange, headquartered in Guernsey.

Corporate information

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Ticker (TISE): GRI

Warrants
ISIN: GB00B8N43P05
SEDOL: B8K0RP9
Ticker (LSE SETSqx): GRIW
Ticker (TISE): GRIw

Global Intermediary Identification Number (GIIN)
RY6D8C.99999.SL.826

Legal Entity Identifier (LEI)
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