Ground Rents Income Fund plc

Annual Report and Financial Statements

For the year ended 30 September 2020

About Us

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

Company summary
The Company is a closed-ended real estate investment trust incorporated on 23 April 2012. The Company has been listed on The International Stock Exchange ("TISE") and traded on the SETSqx platform of the Stock Exchange since 13 August 2012.

At 30 September 2020 the Company had 97,006,497 shares in issue and had 39 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"), appointed in May 2019, is Schroder Real Estate Investment Management Limited ("the Manager", "SREIM" or "Schroders").

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, 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 Manager continues to engage actively with Government in order to ensure that all stakeholders are carefully considered in any proposed legislation.

In July 2020, the Government published the draft Building Safety Bill, which aims to improve safety in high rise buildings. The Bill applies to all multi-occupied residential buildings higher than 18 metres and implements the recommendations of the Grenfell Tower Inquiry Phase 1 report. It also introduces the concept of an 'Accountable Person' responsible for building safety, and a requirement to maintain a 'Golden Thread' of building information.

Against the backdrop of a rapidly developing regulatory environment, 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 400 assets with a low default risk
- Predictable revenue with upward-only rental increases, of which 71% of the ground rent income is indexed-linked, predominantly to the Retail Prices Index ("RPI")
- Long-term income with weighted average lease duration of 343 years
- 41% of the portfolio ground rent income is due to be reviewed over the next five years. Assuming future RPI inflation of 2.5% per annum, ground rent income should increase by approximately 16% over the next 10-year period, or by an annualised figure of 2.6%

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.

Contents

Portfolio at a Glance

Top 10 properties by value

	Property	Location	(£million)	(%)	Property type
1	Lawrence Street Student Village	York	7.9	6.4	Student
2	The Gateway	Leeds	3.7	3.0	Residential
3	Masshouse Plaza	Birmingham	3.6	2.9	Residential
4	One Park West	Liverpool	3.4	2.8	Residential
5	Wiltshire Leisure Village	Wiltshire	3.4	2.7	Residential
6	Ladywell Point	Manchester	3.3	2.7	Residential
7	Rathbone Market	London	3.1	2.5	Residential
8	First Street	Manchester	2.7	2.2	Student
9	Richmond House	Southampton	2.4	1.9	Student
10	Bezier	London	1.9	1.5	Residential
Total			35.4	28.6	

Number of investment units

19,000+

Total investment property value

£124.2 million

Percentage of the portfolio value comprised of top ten properties

28.6%

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

41%

Chairman's Statement

Overview

Since the onset of the Covid-19 pandemic, our focus has been on the safety and wellbeing of our leaseholders and managing agents, maintaining the Company's income and delivering our strategic objectives. The Company's response to the pandemic is consistent with the Board's and the Manager's commitment to 'Best-in-Class' residential asset management, underpinned by strong and effective Health & Safety procedures.

Significant work has been carried out over the year to address the headwinds and regulatory change impacting the Company and the residential ground rents sector more generally. Our priority has been to ensure our leaseholders are safe in their homes and that they are receiving a professional, transparent and fair service. The scale and complexity of the ongoing building safety crisis, compounded by challenges relating to the cost of building insurance, clearly illustrates the need for well-resourced, professional risk and governance oversight of large-scale residential buildings.

In the face of these challenges, and whilst supporting fair reform of the leasehold system, the Government's package of reforms announced in January 2021 could have severe consequences for both leaseholders and investors. The proposed legislative changes could facilitate a one-time transfer of wealth from one consumer group to another, alongside a mandated system of building management which is potentially unable to manage the complex challenges facing the sector. The Board and Manager will be urging Government to engage with industry to ensure these concerns are heard.

During the financial year ending 30 September 2020, the defensive qualities of the portfolio's underlying cash flows resulted in a small decline of 0.1% in the like-for-like value of the underlying portfolio. Despite this resilient performance, the long running litigation at Beetham Tower and the uncovered element of the dividend contributed to a £5.5 million or -5.1% decline in Net Asset Value ("NAV") to £102.6 million or 105.7 pence per share ("pps"), which compares with £108.0 million or 111.3 pps at the start of the financial year. £2.9 million of the NAV decline is an accounting adjustment relating to Beetham Tower that we expect to be reversed on a sale or liquidation of the asset owning subsidiary, although approximately £0.3 million of further sale or liquidation costs are expected to be incurred.

Dividend cover over the year was negatively impacted by the costs associated with the litigation at Beetham Tower. Dividend cover, excluding Beetham Tower, was 81% which was supported by robust ground rent collection.

Investment objective

The Company's investment objective is to provide secure, long-term, inflation protected returns through investment in long-dated UK ground rents, which historically have had lower correlation to returns in mainstream real estate sectors.

Approximately 71% of the underlying ground rent income is index-linked, with a weighted average unexpired lease term of 343 years. There continues to be strong demand in other parts of the real estate market for investments offering similar annuity-style cash flows, which has continued during the pandemic and which we expect to endure. We continue to believe that the catalyst for increased demand for our shares will be resolution of the Beetham Tower litigation and greater visibility on the outcome of leasehold reform.

Given the uncertainty surrounding the residential ground rents sector the Board and Manager continue to investigate other complementary real estate assets which provide similar defensive, secure, counter-cyclical, index-linked income characteristics.

Strategy

Following Schroders' appointment as Manager in May 2019, the Board and Manager carried out a strategic review to maximise sustainable shareholder total returns, including a review of the dividend policy.

Good initial progress was made delivering on the objectives, including demonstrating Best-in-Class asset management, implementing a formal Health & Safety policy which takes into account the Hackitt Review and Grenfell Tower Inquiry findings, and early adoption of the forthcoming Building Safety Bill. The Company also completed the headlease restructuring of six purpose-built student accommodation ground rent assets generating staged payments totalling £1 million over a three year period and an important refinancing which extended the debt maturity profile and provides operational flexibility via the revolving credit facility ("RCF") at a reduced interest cost.

However, as noted above, recent progress has been impacted by the significant work required to address the headwinds affecting the sector and the litigation at Beetham Tower. The Board and Manager are focussed on managing and reducing these risks, which are key to delivering a re-rating of the Company's share price.

Beetham Tower, Manchester

In 2014, routine maintenance to Beetham Tower in Manchester identified that the structural bond used to fix certain glass cladding panels to the frame was failing. Following proceedings brought by the hotel long leaseholder in March 2018, North West Ground Rents Limited ("NWGR"), the Company's wholly owned subsidiary which owns Beetham Tower, commenced proceedings in July 2018 against parties including the original main contractor Carillion Construction Limited ("Carillion"), which had entered liquidation on 15 January 2018, its insurers, façade sub-contractors Bug-Alutechnik GmbH and architects SimpsonHaugh.

In January 2019, the High Court ordered NWGR to carry out specific repairs to the building, Following a tender process NWGR has been advised that the total cost of these works is approximately £8.9 million, prior to any potential recovery from the parties listed above and from residential leaseholders.

Following extensive engagement with Manchester City Council and with the support of the Beetham Tower Residents Association ("BTRA"), in May

2020 planning permission was secured for an alternative repair scheme, which NWGR believes is more deliverable, at a cost of approximately £4.1 million. In October 2020, the High Court found against NWGR's application to vary the remedial work to the alternative repair scheme, but extended the time to complete the scheme until 31 July 2022.

In conjunction with its advisers, the Board has formed the view that, in the current circumstances, it is in the best interests of the Company to pursue a sale of NWGR for a nominal amount as soon as practicably possible, or to withdraw support for NWGR which is likely to lead to the director of NWGR placing it into liquidation.

Leasehold Reform
In January 2020, the Law Commission ("LC") published its report on enfranchisement, setting out three primary options which aim to reduce enfranchisement costs payable by leaseholders, whilst ensuring sufficient compensation is paid to landlords. The options principally focused on the component parts of the premium calculation, including the abolition of Marriage Value for short-dated or reversionary ground rents (sub 80 years unexpired term) which the Company does not invest in. The LC's recommendations were therefore generally positive for the Company and were designed to promote a simplified system for leaseholders, whilst considering the legitimate property interests of wider stakeholder investors.

In January 2021 the Government set out high level proposals based on the LC's recommendations. Although much is in line with previous guidance, important areas of detail remain unclear, 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.

Steps to remove genuinely onerous ground rents and efforts to simplify the enfranchisement process are welcome. However, as drafted, the proposals will create a one-time transfer of wealth from one group of stakeholders to another, creating significant economic consequences for both private and pension fund investors with legitimate interests in this sector.

The Manager continues to engage actively with Government in order to ensure that all stakeholders are carefully considered in any proposed legislation, whilst emphasising the peaceful enjoyment requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights to give appropriate compensation to asset owners.

Competition and Markets Authority
In June 2019, the Competition and Markets Authority ("CMA") launched an investigation into potential breaches of consumer law in the leasehold housing market. The Company has engaged with the CMA during its investigation and responded in detail to a formal information request in December 2019.

On 4 September 2020, the CMA announced its intention to bring enforcement action against four leading housing developers as part of its investigation into possible instances of mis-selling and potential breaches of consumer protection law. The CMA has also confirmed that, at this time and in line with their prioritisation principles, it was not taking action against the Company.

In line with the findings of the investigation, the Company has reviewed its leases and procedures to ensure that they are compliant with consumer law. The Company will also be implementing changes including providing clearer and more readily available information for leaseholders on rent review calculations and the updating of processes surrounding forfeiture under the Housing Act 1988.

Building Safety Reform
In July 2020, the Government published the draft Building Safety Bill, which aims to improve safety in high rise buildings. The Bill applies to all multi-occupied residential buildings higher than 18 metres and implements the recommendations of the Grenfell Tower Inquiry Phase 1 report. It also introduces the concept of an 'Accountable Person' responsible for building safety, and a requirement to maintain a 'Golden Thread' of building information.

Against the backdrop of a rapidly developing regulatory environment, the Board and 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.

Dividend policy
Despite the onset of Covid-19 and the material impact the pandemic has had on rent collection within the wider commercial real estate market, the Company's strong income collection performance enabled total dividends of £3.9 million to be paid during the year, in line with its stated target. Quarterly dividends of 0.99 pence per share have continued to be paid since the financial year end.

Future dividends will be reviewed in light of leasehold reform, increasing non-recurring property management and related costs and any pandemic related impact.

Board composition
In February 2021, Barry Gilbertson joined the Board as an independent non-executive director and will replace me as Chairman when I retire at the Annual General Meeting in March 2021.

Barry has more than 45 years of experience within real estate, strategy and risk, including as an adviser to the Bank of England, the UK Government, and as a Past President of the Royal Institution of Chartered Surveyors. Barry's extensive investment trust and wider real estate experience will be a valuable addition to the Board.

Outlook
The Company is operating in a challenging environment and the outlook will principally be influenced by resolution of the litigation at Beetham Tower and the outcome of leasehold reform.

The Board and Manager continue to support leasehold reform which achieves a better balance between the interests of ground rent investors and leaseholders, and we are both advocates for a fair and transparent leasehold system which takes account of all stakeholders and supports the appropriate value of the Group's portfolio.

Malcolm Naish
Chair

2 March 2021

Investment Manager's Review

Resilient income collection and strong focus on delivering Best-in-Class residential asset management

Managing challenges associated with leasehold reform and building safety.

Performance
The Group's Net Asset Value ("NAV") was £102.6 million or 105.7 pence per share ("pps") as at 30 September 2020, which compares with £108.0 million or 111.3 pps at the start of the financial year. This reflected a decline in NAV of 5.6 pps or 5.1%, and a NAV total return, including total dividends paid over the financial year of £3.9 million, of -1.6%. The movement in NAV is set out in the table below:

	£ million	Pence per share ("pps")
NAV as at 30 September 2019	108.0	111.3
Portfolio valuation	–0.5	–0.6
Realised gains on disposal	0.3	0.3
Net revenue (excluding NWGR costs)	3.1	3.2
Litigation expenses	–1.5	–1.5
Provision for NWGR remedial works	–2.9	–3.0
Dividends paid	–3.9	–4.0
NAV as at 30 September 2020	**102.6**	**105.7**

Although the portfolio value was stable over the financial year at £124.2 million, the NAV was adversely impacted by litigation expenses and an accounting adjustment relating to Beetham Tower in Manchester, that is owned by the Company's wholly owned subsidiary, North West Ground Rents Limited ('NWGR'). As outlined in more detail below, the Company is seeking resolution to the long-running litigation which will result in a sale for nominal consideration or the withdrawal of support for NWGR.

The £2.9 million provision is an accounting adjustment under International Accounting Standard ("IAS") 37 which reflects an estimate of the cost NWGR would incur, were it to proceed with the remedial works required to Beetham Tower, after recovery. This provision is expected to be reversed in the event of either a sale or liquidation of NWGR.

Income Collection
Since the onset of Covid-19, we have implemented more accommodative revenue collection practices by extending the arrears process, temporarily suspending late payment fees, accepting extended payment terms where appropriate and encouraging leaseholders experiencing genuine financial hardship to engage with our external advisors.

Despite these amended collection processes, and the restrictions of the Coronavirus Act 2020, rental collection rates show a slight improvement compared with the previous financial year. Our active oversight of credit control has seen a strong start to 2021, with over 70% of the £2.4 million total ground rent income due on 01 January collected, which compares positively against the same point last year. These strong income collection results enabled the pre-Covid dividend level to be maintained during the financial year.

Market overview
Ground Rents Investment Market
The Covid-19 pandemic has impacted global financial markets, including many sectors of the real estate market. During the financial year the ground rent investment market saw a steady, if reduced, number of transactions taking place at broadly stable pricing which was reflected in the portfolio valuation.

Investor sentiment towards the ground rents sector and market liquidity is, not unsurprisingly, being affected by the ongoing leasehold reform process. The generally well received announcement from the Law Commission ("LC") in January 2020 triggered a number of transactions, on assets comparable to those owned by the Company, that provided evidence to support valuations at the end of the year.

More recently, the Government's announcement of reform proposals in January 2021 has increased uncertainty which, together with ongoing building safety reform, has led to greater caution amongst institutional investors. This is expected to persist until there is clarity on the Government's reform proposals and specifically the detail related to the 0.1% market value cap as part of the enfranchisement premium calculation.

Whilst our focus remains on the current strategy, we continue to explore diversifying the Company into commercial ground rents and expanding the current investment mandate to include other assets offering complementary defensive, predictable, index-linked income such as shared ownership and social housing. Comparable asset classes with index-linked, annuity-style income characteristics have seen strong appetite from investors, and we expect this to continue.

Inflation & Retail Price Index ("RPI") Reform
Annual Consumer Prices Index ("CPI") inflation for December 2020 surprised consensus by rising from 0.3% to 0.6% against expectations of 0.5%. The Retail Price Index ('RPI'), a more relevant measure for the Company due to approximately 71% of cash flows being linked to this measure of inflation, rose to 1.2% year on year.

There is increasing debate as to whether the expansion in the money supply arising from the Bank of England's £150 billion quantitative easing programme, will lead to higher inflation. We would expect higher expected and actual inflation to lead to greater demand for long dated cash flows such as those offered by the ground rents sector.

In 2019, the then Chancellor pledged to bring RPI in line with the Consumer Prices Index including occupiers housing costs, a measure called CPIH. HM Treasury have subsequently announced that in 2030 RPI will be brought in line with CPIH. Whilst this could lead to reduced income in the future, this could be off-set by increased demand for defensive assets offering inflation-proofed cash flows.

Portfolio activity
Following Schroders' appointment in May 2019, the Board and Manager undertook a strategy review to determine the best course of action to maximise sustainable shareholder total returns. The key strategic objectives were to sustainably grow recurring income to accelerate dividend coverage, whilst enhancing risk management and operational efficiency as we implement Best-in-Class residential asset management. Progress has been made delivering on these strategic objectives whilst also dealing with the increased headwinds and work streams relating to leasehold and building safety reform. Examples of this activity are set out below:

Growing Recurring Income
Restructure of six purpose-built student accommodation head-leases
– Six new long headleases completed, removing day-to-day management responsibilities, and consolidating 812 rental demands into eight.

- The restructuring delivered £300,000 within the financial year (£1 million over three years) and, following a rent review, increased rent received from £305,000 to £320,000 per annum.

Loan refinancing
- A new five-year, £25 million facility with Santander UK plc comprising a £12.5 million term loan and a £12.5 million revolving credit facility ("RCF"), extending the loan term to January 2025.
- The term loan is at a fixed cost of 2.68% and the RCF is at a margin of 1.85% per annum above 3-month LIBOR (the London Interbank Offered Rate), a reduction of 45 basis points compared to the previous margin of 2.30%.
- The margin reduction generates an approximate interest rate saving of £150,000 per annum (based on the total drawn amount of £19.5 million and 3-month LIBOR rate as at 30 September 2020).

Review of key supplier agreements and auxiliary income
- Renegotiated the agreement between the Company and its principal property manager to generate additional net income of approximately £115,000 per annum.
- Reducing the dividend's reliance on non-core, ancillary income.

Operational Efficiency & Risk Management
During the year and since the year end, further steps have been taken to enhance risk and governance processes and deliver Best-in-Class residential asset management. This includes the implementation of a formal Health & Safety policy taking into account the Hackitt Review and Grenfell Tower Inquiry Phase 1 Report, together with the following more detailed actions;
- Compartmentalisation audit of fire doors, riser cupboards and automatic opening vents.
- Digitisation of documentation as early adopters of the anticipated Building Safety Bill.
- External Wall Surveys ("EWS1") instructed for all buildings over 18 metres.
- Regular engagement with residents' management company directors and agents in the non-managed estate.
- Type 4 Fire risk assessments instructed across the managed estate.
- Acceleration of 2021 and 2022 Fire Reinstatement Valuations.
- Registration of all the Company's qualifying managed assets for the Government's Building Safety Fund.
- 2021 Insurance renewal completed under challenging market conditions with focus on external walls.
- Updated Property Management Agreements to enhance governance and risk management and expand environmental, social and governance ("ESG") obligations.
- Membership of the British Property Federation ("BPF") Residential Safety Committee to improve best practice.

Leasehold & Building Safety Reform
Leasehold Reform
Progress on reform slowed during Covid-19, with Government resources reallocated to the pandemic. However, in January 2021 the Government re-confirmed their commitment to meaningful sector reform and announced:
- The abolition of "Marriage Value".
- Setting all future ground rents to £zero.
- 990 years lease extensions at £zero rent in return for a premium payment to the freeholder.
- The establishment of an online calculator to make it easier for leaseholders to ascertain the level of premium payable to the freeholder.
- 0.1% market value cap on the quantum of ground rent that can be capitalised in the term valuation.

Marriage Value does not form part of the valuation of long-dated ground rents and therefore the potential impact on the Company's portfolio is likely to be minimal. Conversely, if enacted, the 0.1% cap on the level of ground rent that can be capitalised in the term valuation would be dilutive to investors and would represent radical Government intervention in a functioning real estate market.

We therefore welcome the creation of a RICS working group, which has been established with Government to consider important outstanding detail relating to the January 2021 announcement, together with the implications of the enfranchisement premium calculation methodology and proposed 0.1% of market value cap.

We are actively engaged with Government via the RICS and BPF in order to ensure that all stakeholders are carefully considered in any proposed legislation. This includes emphasising the requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights to provide appropriate compensation to investors in this sector.

Legislation setting future ground rents to zero is expected during 2021, with legislation relating to new lease extension and enfranchisement premiums expected by the end of the current parliament in 2024.

Building Safety Reform
In January 2020, Government announced new measures to improve building safety standards. The proposed legislation will strengthen the regulatory system for building safety, ensuring greater accountability and responsibility throughout the lifecycle of a building, and will implement many of the recommendations from the Grenfell Tower Inquiry Phase 1 report.

Under the proposals, Landlord and Tenant legislation will be updated to include a new Building Safety Charge, which applies to all buildings and sits outside of the confines of a development's leases. This new charge will be separate to the service charge but will create a mechanism to recover the costs of fire safety related works such as cladding replacement, fire related façade works or installing enhanced fire detection measures.

We believe these proposals are an important milestone in delivering the enhanced safety standards the industry needs to ensure leaseholders are safe in their homes. As we have articulated throughout our engagement with policy makers, we strongly believe professional investors with an economic interest in fair, transparent ground rents have a clear incentive to participate in the underlying management of their portfolios.

In March 2020, the Government announced a further £1 billion Building Safety Fund ("BSF"') to remove defective cladding from private sector sites above 18 metres. This was followed by a further announcement in February 2021 which included:
- £3.5 billion of additional funding (£5 billion in total) for the BSF for buildings over 18 metres high.
- For buildings under 18 metres high a long-term loan scheme will be created with a cap of £50 a month for repayments by any leaseholder.
- A developer levy will be applied to new-build high-rise buildings and reflects the application fee described in the proposed Building Safety Bill.
- A new residential development tax, which is expected to raise £2 billion over 10 years.

The Government is also addressing the issue of professional indemnity insurance for External Wall Survey Review ("EWS1") and BSF works. The Government has stated that they will work towards a state-backed indemnity scheme for qualified professionals, which should accelerate the remediation of buildings at risk.

Investment Manager's Review continued

Whilst we again support the Government's steps to address the industry wide cladding issues and limit the financial impact on leaseholders, the BSF still does not cover works to replace fire breaks, flammable insulation, or other types of combustible cladding. We welcome the appointment of Lord Stephen Greenhalgh as Building Safety and Fire Minister and continue to engage with Government to develop policy makers' implementation strategy.

Competition and Market Authority
In June 2019, the Competition and Market Authority ("CMA") launched a sector-wide investigation into potential mis-selling and other possible breaches of consumer protection law in the leasehold housing sector. In February 2020, the CMA published an Update Report, setting out the main areas of concern in relation to its investigation. These areas were:
- The mis-selling of leasehold houses by housing developers.
- Lease terms under which ground rents, which may initially be high already, increase over time.
- High or escalating ground rents that either mean that a tenancy is, or raise the prospect of a lease becoming, an 'assured short hold tenancy' under the Housing Act 1988.
- The use of RPI to adjust the levels of ground rent under rent review.
- Landlords or their managing agents charging high and unjustified permission fees and service charges.
- The effectiveness of the current system of checks and balances intended to protect homeowners from potentially harmful terms and practices.

On 4 September 2020, the CMA announced its intention to bring enforcement action against four leading housing developers. The CMA also confirmed that, at this time and in line with their prioritisation principles, it was not taking enforcement action against the Company. In line with the findings of the sector-wide investigation, the Company continues to review the terms of its leases and its procedures to ensure that they are compliant with consumer law.

We will be closely monitoring the enforcement cases being brought by the CMA and will review the Company's position in the light of any further developments.

Real estate portfolio
As at 30 September 2020 the portfolio comprised approximately 19,000 units across 400 assets valued at £124.2 million. The portfolio produces a ground rent income of £4.92 million per annum, reflecting an average Years Purchase ("YP") of 25.2 or a gross income yield of 3.97%.

The median annual ground rent charge is £110 for houses and £250 for apartments (excluding student assets). During the year, the Group acquired Brentford Lock for £1.64 million (excluding costs), which represented a net initial yield of 3.7%. This acquisition generates free cash of approximately £45,000 (taking into account the net costs of financing), which improves dividend cover and adds to the portfolio of RPI-linked assets.

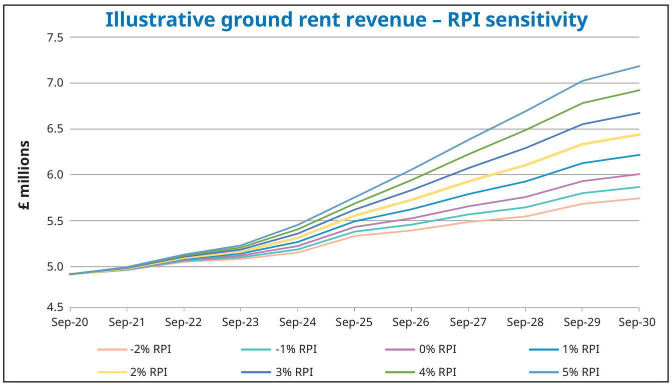
The portfolio's weighted-average lease term as at 30 September 2020 was 343 years, with 93% of the ground rent income subject to indexed or fixed increase review mechanisms. This is set out in the table below.

Review type	Ground Rent Income (%)
Index linked	71.2
Doubling	15.4
Fixed	6.7
Flat	6.7
Total	**100.0**

The rent review profile is shown in the table below, with 41.3% of the ground rent income due for review over the next five years:

Years to next review	Ground rent income (%)
0-5	41.3
5-10	25.6
10-15	20.3
15-20	3.7
Over 20	2.4
Flat (no review)	6.7
Total	**100.0**

The chart below demonstrates the forecast income performance based on various levels of RPI. RPI inflation over the five years to and including September 2020 was 2.5% per annum.



Source: Schroders

Assuming future RPI inflation (for which the calculation is expected to be adjusted to CPIH with effect from 2030) of 2.5% per annum, ground rent income should increase c.16% over the next five years or an annualised figure of 2.6%; slightly ahead of the RPI inflation assumption.

The top 10 assets by value represent 28.6% of the total portfolio valuation as at 30 September 2020.

Property	Location	Valuation September 2020 £ million	Valuation (%)
Vita Student Village	York	7.9	6.4
The Gateway	Leeds	3.7	3.0
Masshouse Plaza	Birmingham	3.6	2.9
One Park West	Liverpool	3.4	2.8
Wiltshire Leisure Village	Wiltshire	3.4	2.7
Ladywell Point	Manchester	3.3	2.7
Rathbone Market	London	3.1	2.5
First Street	Manchester	2.7	2.2
Richmond House	Southampton	2.4	1.9
Bezier Apartments	London	1.9	1.5
Total		**35.4**	**28.6**

The geographic spread of the portfolio as at 30 September 2020 is shown in the chart below:

Location	% of Ground Rent Income	% of valuation at September 2020
North West	29.9	28.2
North East	29.1	29.4
London	12.1	11.8
Midlands	11.8	12.6
South West	10.3	11.2
South East	5.4	5.4
Wales	1.4	1.4
Total	**100.0**	**100.0**

North West Ground Rents Limited – Beetham Tower, Manchester

The Company purchased North West Ground Rents Ltd ("NWGR") as part of its IPO in 2012. NWGR is a wholly owned subsidiary of the Company and its only asset is the freehold title of Beetham Tower, a mixed use, 47 story building in Manchester with 219 apartments and a Hilton branded hotel. The asset generates total ground rent income of £64,152 per annum comprising £33,250 from the 219 residential leases and £30,902 from the hotel lease.

In 2014 routine maintenance identified that the structural bond used to fix certain glass cladding panels to the frame was failing. NWGR notified the main contractor, Carillion Construction Limited ("Carillion"), who subsequently installed fixings to secure the glazing. This was intended to be a temporary solution whilst Carillion and their specialist cladding subcontractors, BUG Alutechnik GmbH ("BUG"), developed a permanent solution. Despite repeated reassurances that Carillion and BUG were working on a solution, progress was limited, and Carillion fell into liquidation in 2018.

Following proceedings brought by the hotel long leaseholder in March 2018, NWGR commenced proceedings in July 2018 against parties including Carillion (now in liquidation), its insurers, and façade sub-contractors BUG Alutechnik GmbH and architects SimpsonHaugh, who it believes have a responsibility to remedy the defects in the cladding. In September 2018 due to litigation and uncertainty the value of NWGR's total investment in Beetham Tower was written down to £nil.

In January 2019, the hotel long leaseholder, Blue Manchester Limited ("BML"), obtained a Court ruling which required NWGR to implement a specific permanent solution ("Option B") and complete the works by July 2020. The works directed by the Court include removing affected glazing units from the frames, removing the defective structural bond and then re-fixing them to the building. NWGR is advised that this solution is technically challenging to deliver, with significant risk from working at height and potential weather-related delays. The total cost of these works have been tendered resulting in potential total costs of approximately £8.9 million, before any recovery from the abovementioned third parties and from residential leaseholders.

Given this significant cost of Option B for NWGR and the residential leaseholders, NWGR explored alternative options to achieve a satisfactory repair solution. Following extensive engagement with Manchester City Council and with the support of the Beetham Tower Residents Association ("BTRA"), in May 2020 planning permission was secured for an alternative repair scheme that the board of NWGR and its professional advisors believe is more deliverable and at a total cost of approximately £4.1 million prior to any recovery under the terms of the residential leases.

In June 2020, an application was made to the Court to approve the alternative scheme which was challenged by BML. On 20 October 2020, the Court found against NWGR's application to vary the remedial work to the alternative repair scheme but extended the time to complete the original ordered scheme until 31 July 2022.

Since the 2019 High Court judgement, following requests from NWGR, the Company has provided loans to NWGR totalling approximately £2.7 million to facilitate its working capital requirements, including its exploration of the alternative repair solution. NWGR has no external loans, other than the shareholder loans advanced by the Company. The Company has not provided any guarantees in respect of NWGR's obligations.

Investment Manager's Review continued

In conjunction with its advisers, the Company has formed the view that, in the current circumstances, it is in the Company's best interests to pursue a sale of NWGR for nominal value, whilst also contingency planning for the scenario where this is not achievable and NWGR enters into a formal insolvency process.

Under either a sale of NWGR for a nominal value or a formal insolvency process, the £2.9 million remedial works provision included at the financial year end in line with requirements under IAS 37 will be reversed.

The Company stated in October 2020 that, based on expenses incurred since the 31 March 2020 and a provision for costs, the further negative financial impact for the Company, were NWGR to enter liquidation or be sold for a nominal sum, was expected to be in the region of £1.3 million. £1 million of this is reflected in the Company's 30 September 2020 NAV and the remaining approximate £0.3 million is expected to be incurred after the year end to conclude either the sale or liquidation process.

Responsible investing with impact

Responsible investment is integral to how Schroder Real Estate manages its investments. Together with the Board, we believe that by understanding and managing the impact of Environmental, Social and Governance ("ESG") considerations we can generate better long-term returns for our clients, contribute to our tenants' business performance and create tangible benefits to the communities in which they are located.

SREIM's sustainability programme is continually evolving, reflecting progression with industry sustainability targets, available technologies and the regulatory environment. Our approach looks to consistently improve the sustainability credentials of the Company's portfolio.

There will be an unrelenting focus on sustainability in the next financial year with our investment and asset management teams incorporating sustainability and impact credentials into all activities. This is evident in our consumer focussed response to the Covid-19 pandemic, where our focus has been on the safety and wellbeing of our leaseholders and managing agents, maintaining the Company's income and delivering our strategic objectives.

In relation to the environment, positive action is needed as the built environment is generally accepted to be responsible for 40% of global carbon emissions. In recognition of the role and responsibilities of the real estate industry and property owners, in December 2020 Schroder Real Estate published its pathway to achieving net zero carbon across all assets by 2050. The publication of this pathway follows Schroders becoming a founding signatory to the Net Zero Asset Managers Initiative in December 2020, as well as the Net Zero Commitment Schroder Real Estate made in September 2019 as part of the UK Better Buildings Partnership Climate Commitment. This commitment is an extension of SREIM's sustainability programme which includes targets to reduce energy consumption and greenhouse gas emissions.

Finance

In January 2020, the Company refinanced its previous £19.5 million loan with Santander UK plc with a new five-year, £25 million facility comprising a £12.5 million term loan and a £12.5 million revolving credit facility ("RCF"). This removed refinancing risk in 2021 and provides important operational flexibility.

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 LIBOR 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 has therefore reduced from 3.37% to approximately 2.62% per annum, generating an interest rate saving of approximately £150,000 per annum (based on the total drawn amount of £19.5 million and 3-month LIBOR rate as at 30 September 2020 and including the non-utilisation fee on the undrawn RCF).

The table below sets out the loan terms:

Lender	Facility	Loan drawn £ million	Maturity	Interest rate[1] (%)	Loan to Value ("LTV") ratio[2] (%)	LTV ratio covenant (%)	Interest cover ratio[3] (%)	ICR ratio covenant (%)	Forward looking ICR ratio[4] (%)	Forward looking ICR ratio covenant (%)
Santander	Term loan	12.5	Jan 2025	2.62	30.6	50.0	403.1	270	420.6	270
	£12.5 million RCF	7.0								

1 Total 'all in' interest rate based on the LIBOR rate applicable to the RCF as at 30 September 2020, inclusive of non-utilisation fee.
2 Loan balance divided by Santander secured portfolio bank valuation as at 31 March 2020.
3 For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
4 For the four quarters following the IPD, ((rental income to be received – void rates, void service charge and void insurance)/interest payable).

At 30 September 2020, £19.5 million was drawn on the Company's revolving credit facility and term loan combined. The Loan to Value ("LTV") on the charged pool of assets is 30.6% versus a covenant of 50%, and £5.5 million of the facility remains undrawn.

The Company has £68.5 million of uncharged assets as per the independent portfolio valuation and the Group level LTV based on gross assets is 15.7% against a restriction of 25%.

Summary

Investor sentiment towards the Company and performance continues to be affected by uncertainty related leasehold reform and the litigation surrounding Beetham Tower.

Our strong focus is therefore on addressing these risks by bringing final resolution to Beetham Tower and working with Government and other stakeholders to deliver fair leasehold reform. We will also continue to focus on delivering sustainable net income growth and developing our risk and governance processes to demonstrate 'Best-in-Class' residential asset management.

James Agar
Fund Manager
Schroder Real Estate Investment Management Limited

2 March 2021

Sustainability Report

Health & Safety
There continues to be sharp focus on Health & Safety across the portfolio. SREIM and the Board are committed to providing "Best in Class" residential management to shareholders and leaseholders underpinned by strong and effective Health & Safety procedures, and preparation for proposed Building Safety Bill.

All bi-partite buildings have been registered for the Government's Building Safety Fund, whilst EWS1 external wall surveys have been instructed for buildings in the Managed Estate over 18m. The Manager regularly engages with managing agents and residents' management company directors across the non-managed estate to drive standards within the sector and encourage best practice. An updated property management agreement has been implemented, which will improve governance and risk management, and develop our ESG and Impact Investing strategy in conjunction with our managing agents.

Energy and greenhouse gas emissions
Active management of energy consumption and greenhouse gas emissions is a key component of responsible asset and building management. Improving energy efficiency and reducing energy consumption will benefit tenants' occupational costs and may increase the value of leaseholders' properties in addition to mitigating environmental impacts and helping to future proof the portfolio against future legislation.

In those buildings where SREIM appoints the managing agent, 100% of electricity supplies are from renewable sources. SREIM also engages with the managing agents at the other properties in order to promote the use of renewable energy sources.

Net Zero Carbon Pathway
SREIM joined other members of the Better Buildings Partnership ("BBP") in September 2019 to sign the Member Climate Change Commitment. The first stage of this commitment is for all signatories to determine a pathway to Net Zero Carbon during 2020. The commitment also includes developing climate change resilience strategies for portfolios and to determine consistent industry disclosure on climate change risks in line with industry standards, including the TCFD. The BBP commitment is an extension to SREIM's sustainability programme and the BBP will be supporting members through development of their pathways and all aspects of the commitment over the course of 2020 and beyond.

Health, wellbeing and productivity
The real estate industry has a good appreciation of the importance of the built environment on human health, wellbeing and productivity. There has been considerable development on what building aspects matter and certification schemes, including the Well Building and Fitwel Certifications, support landlords and tenants to address these. SREIM is working to embed this aspect into its investment process, especially in relation to new asset purchases.

Stakeholder engagement and community
SREIM seeks active engagement with leaseholders to ensure a good occupational experience to help retain and attract tenants. As the day to day relationship is with the property managing agent, a key performance indicator on leaseholder engagement is being included in all contracts. SREIM also engages on a regular basis with residents' associations for the Company's assets where required to better understand their needs and to partner with them on providing a safe and comfortable built environment.

SREIM continues to advocate for workable legal reforms which deliver sustainable, fair terms for leaseholders, and the Company continues to offer those with 'doubling' leases the opportunity to convert these so that their ground rents increase in line with inflation under its 'Project Pacific'.

Compliance with legislation
Streamlined Energy and Carbon Reporting (SECR)
The Company is not required to produce reporting information under SECR.

Industry initiatives
Industry participation
SREIM is a member of a number of industry bodies including the European Public Real Estate Association (EPRA), INREV (European Association for Investors in Non-Listed Real Estate Vehicles), British Council for Offices and the British Property Federation. It was a founding member of the UK Green Building Council in 2007 and in 2017 became a member of the Better Buildings Partnership and a Fund Manager Member of GRESB.

Employee policies and corporate responsibility
Employees
The Company is an externally managed real estate investment trust and had no employees throughout this reporting period. SREIM is part of Schroders plc which has responsibility for the employees that support the Company. Schroders believes diversity of thought and an inclusive workplace are key to creating a positive environment for their people. SREIM's real estate team have a sustainability objective within their annual objectives.

Further information on Schroders' principles in relation to people including diversity, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found from page 28 of Schroders Annual Report and Accounts 2019.

https://www.schroders.com/en/sysglobalassets/annual-report/documents/Schroders_2019AnnualReport.pdf.

Corporate responsibility
Schroders' commitment to corporate responsibility is to ensure that its commitment to act responsibly, support clients, deliver value to shareholders and make a wider contribution to society is embedded across its business in all that it does.

Full information on Schroders' Corporate Responsibility approach including its economic contribution, environmental impacts and community involvement, can be found at
http://www.schroders.com/en/about-us/corporate-responsibility/

Slavery and human trafficking statement
The Company is not required to produce a statement on slavery and human trafficking pursuant to the Modern Slavery Act 2015 as it does not satisfy all the relevant triggers under that Act that require such a statement.

SREIM is part of Schroders plc, whose statement on Slavery and Human Trafficking has been published in accordance with the Modern Slavery Act 2015 (the 'Act'). It sets out the steps that Schroders has made during 2019 and plans for 2020 towards combatting modern slavery in its business and supply chains.

Schroders' statement can be found at
https://www.schroders.com/en/about-us/corporate-responsibility/slavery-and-human-trafficking-statement/

Task Force for Climate-Related Financial Disclosure
The Task Force on Climate-related Financial Disclosure ("TCFD") aims to mainstream reporting on climate-related risks and opportunities in organisations' annual financial filings. The Company is not required to produce TCFD disclosures.

Business Model

Company's business
The Company carries on business as a real estate investment trust. It has been approved by HM Revenue and Customs as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010, by way of a one-off application and it is intended that the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is domiciled in the UK and is an investment company within the meaning of section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

The Articles of Association contain provisions for a continuation vote at specified intervals. The next continuation vote is to be put forward at the Annual General Meeting in 2023.

As at the date of this Report, the Company had 47 subsidiaries, details of which are set out in note 5 on pages 53 and 54.

Purpose, values and culture
The Company's purpose is to deliver its investment objective and strategy (as set out on the inside front cover).

The Company's culture is driven by its values:

Responsibility – recognising the importance of the Company's role as steward, ESG considerations are integrated into the investment process to the benefit of a range of stakeholders including shareholders, residents and local communities.

Rigour – high quality research and detailed analysis form the basis of all investment decisions.

Relationships – building long-term relationships with the Company's service providers, in a way that encourages collaboration and fosters deep understanding of the Company's business, is a priority for the Company.

As the Company acts through its service providers, its culture is represented by the values and behaviour of the Board and third parties to which it delegates. The Board aims to fulfil the Company's investment objective by encouraging a culture of constructive challenge with all key suppliers and openness with all stakeholders. The Board is responsible for embedding the Company's culture in the Company's operations.

The Board recognises the Company's responsibilities with respect to corporate and social responsibility and engages with its service providers to safeguard the Company's interests. As part of this ongoing monitoring, the Directors receive reporting from service providers on matters such as their anti-bribery and corruption policies; Modern Slavery Act 2015 statements; diversity policies; and greenhouse gas and energy usage reporting. The Management Engagement Committee reviews the Company's service providers. Its report is on page 23.

Portfolio
The Group's portfolio of ground rents includes freeholds and head leaseholds of residential and commercial properties located throughout the United Kingdom. The Group generates income primarily from the collection of such ground rents, approximately 71% of which rise in line with inflation. It generates additional income from other commercial relationships and fees for performing specific obligations under individual leases.

Management
Schroders performs specific duties in line with the AIFM Agreement including, but not limited to, recommending purchases and sales of freeholds (and head leases), and overseeing the collection of ground rents from approximately 19,000 individual units and where appropriate insurance premiums.

Schroders also undertakes active asset management activities across the portfolio including overseeing managing agents and engaging with leaseholders and tenants' associations, with a detailed focus on Health & Safety and risk management. In addition to this Schroders oversees property management matters ranging from issuing service charge budgets and year end accounts, to more complex situations such as assisting managing agents and Residents Management Companies in the management of remedying building defects. Further details of the Manager's duties are described on page 17.

Oversight
The Board of the Company oversees the activities of the Manager and monitors the Group's risks and investment performance as described later in this section.

Income
The ground rents and other income sources generate income which is paid out as dividends to shareholders, in line with REIT conditions.

Investment objective and strategy
Details of the Group's investment objective and strategy may be found on the inside front cover.

The Board has appointed the Manager to implement the investment strategy and to manage the Group's assets in line with the appropriate restrictions placed on it by the Board, set out further below.

Diversification and asset allocation
Details of the Group's policy in relation to diversification and asset allocation are set out on the inside front cover.

Borrowing
The Group utilises gearing with the objective of improving shareholder returns. Details of the Group's policy in relation to borrowing are set out in note 1 on page 36.

Investment restrictions and spread of investment risk
The Group invests and manages its assets with the objective of spreading risk and in accordance with its published investment policy. The Group ensures that the objective of spreading risk has been achieved by investing in a diversified portfolio of ground rents including freeholds and head leases of residential and commercial properties located in the United Kingdom. The Investment Manager's report describes how the objective of spreading risk has been achieved through a diversified portfolio of properties.

Promotion
The Company promotes its shares to a broad range of investors which have the potential to be long-term supporters of the investment strategy. The Company seeks to achieve this through its Manager and its corporate broker which promote the shares of the Company through regular contact with both current and potential shareholders.

Promotion is focused via three channels:
- Discretionary fund managers. The Manager promotes the Company via both London and regional sales teams. This market is the largest channel by a significant margin.
- Execution-only investors. The Company promotes its shares via engaging with platforms and through its web page. Volume is smaller but platforms have experienced strong growth in recent times and are an important focus for the Investment Manager.

– Institutional investors. These activities consist of investor lunches, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition, the Company's shares are supported by the Investment Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website.

The Board also seeks active engagement with investors and meetings with the Chair are offered to professional investors where appropriate.

Key performance indicators

The Board measures the development and success of the Group's business through achievement of the Group's investment objective, set out on the inside front cover, which is considered to be the most significant key performance indicator for the Group. Comment on performance against the investment objective can be found in the Investment Manager's Review.

The Board continues to review the Group's ongoing charges to ensure that the total costs incurred by shareholders in the running of the Group remain competitive when measured against its peers. An analysis of the Group's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. The management fee is reviewed at least annually.

Corporate and social responsibility

Board diversity

As at 30 September 2020, the Board comprised three men. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of those of the overall Board, taking into account the specific criteria for the role being offered.

Candidates are not specifically selected on the grounds of their gender but this is taken into account in terms of overall balance, skillset and experience. Further information about the Board and their biographical details can be found on pages 15 and 16.

Responsible investment policy

The Company's and the Manager's approach to responsible investment, including in relation to environmental, social and governance ("ESG") issues, is set out in the sustainability report on page 9.

Key Information Document ("KID")

KIDs for the Company's ordinary shares and warrants were published by the Investment Manager in March 2020, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations. The calculation of figures and performance scenarios contained in the KIDs have been neither set nor endorsed by the Board nor the Investment Manager.

Business Model continued

Principal risks and uncertainties
The Board is responsible for the Group's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Group's business as a REIT and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives. The principal risks, emerging risks and the monitoring system are also subject to robust assessment at least annually. The last assessment took place in December 2020.

Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the Group's principal risks and uncertainties are set out in the table below.

Emerging risks and uncertainties
During the year, the Board also discussed and monitored risks that could potentially impact the Group's ability to meet its strategic objectives. The main emerging risk monitored was political risk, specifically leasehold reform, which could adversely impact the value of the Group's portfolio. Political risk also includes Brexit and the Board continues to monitor developments from the UK's departure from the European Union and to assess the potential consequences for the Group's future activities, but believes that the Group's business model's lack of exposure to foreign exchange currency rates, positions the Group to be suitably insulated from Brexit related risks.

Climate change risk includes how climate change could affect the Company's investments, and potentially shareholder returns or the safety of residents. The Board notes the Manager has integrated ESG considerations, including climate change, into the investment process. The Board will continue to monitor the status of climate change as an emerging risk.

The Board also reviewed the risks arising from the Covid-19 pandemic and how it impacted the Company's principal risks and uncertainties. The Board considers that the pandemic has not affected the Company's cash flows to date, although it continues to monitor this. The Board notes the Manager's investment process is unaffected by the pandemic. Covid-19 also affected the Company's service providers, who implemented business continuity plans in line with government guidelines. All service providers continue to operate on a business as usual basis. The "change" column below highlights at a glance the Board's assessment of any increases or decreases in risk during the year after mitigation and management. The arrows show the risks as increased or decreased, and dashes show risks as stable.

Risk	Mitigation and management	Change (post mitigation and management)
Strategic An inappropriate investment strategy, or failure to implement the strategy, could lead to underperformance and the share price being at a larger discount, or smaller premium, to NAV. This fall in values would be amplified by the Group's external borrowings.	The Board seeks to mitigate these risks by: – Diversification of its ground rents portfolio through its investment restrictions and guidelines which are monitored and reported on by the Investment Manager; – Determining borrowing policy, and ensuring the Investment Manager operates within borrowing restrictions and guidelines; – Receiving from the Investment Manager timely and accurate management information including performance data, attribution analysis, business plans and financial projections; – Monitoring the implementation and results of the investment process with the Investment Manager; and – Reviewing marketing and distribution activity and considering the use of a discount control mechanism as necessary.	↑
Regulatory Leasehold reform legislation is proposed by the UK Government that, amongst other things, enables leaseholders to enfranchise based on a calculation that is dilutive to investors.	The Company is actively engaged with Government via the Royal Institution of Chartered Surveyors ("RICS") and the British Property Federation ("BPF") in order to ensure that all stakeholders are carefully considered in any proposed legislation. This includes emphasising the requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights to provide appropriate compensation to investors in this sector.	↑

Risk	Mitigation and management	Change (post mitigation and management)
Valuation/liquidity The market for the onward sale of the Group's freeholds is small and this may result in volatility in the price achieved when selling or valuing assets.	The Group does not seek to actively trade its assets, instead focusing on managing them responsibly and effectively. External valuers provide independent valuation of all assets at least half-yearly. Members of the Audit Committee will meet with the external valuers to discuss the basis of their valuations and their quality control processes on at least an annual basis.	↑
Asset In light of recommendations from Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety, and the Government's recent consultation 'Building a safer future: proposals for reform of the building safety regulatory system" (the 'Hackitt Review'), heightened regulatory requirements are recommended to protect the Company and consumers.	The Manager reviewed and updated fire strategy decisions in the managed estate. Fire safety management policies and procedures, risk assessments, and fire records were improved in keeping with the "Golden Thread" principle of the Hackitt Review. Maintenance regimes have been improved to increase testing and planned preventative maintenance. The Manager continues to work closely with The Ministry of Housing, Communities and Local Government, local fire authorities and fire safety experts to ensure fire safety and address any remedial actions following Grenfell Tower learnings. The Manager engages in regular correspondence with the directors of resident's management companies and their managing agents, in the non-managed estate. The Company has entered into a partnership with the Hampshire Fire and Rescue Service to provide high-level advice and assistance in formulating and implementing policy.	–
Asset The properties ultimately owned by the Group are unable to be used or deteriorate in value as a result of structural defects or other unforeseen events.	Insurance is maintained to cover against certain events. The Manager has a monitoring programme in place to mitigate against certain types of asset risk. Other than in exceptional circumstances, leaseholders are responsible for the costs of repair of issues with the fabric of buildings.	–
Service provider The Group has no employees and has delegated certain functions to a number of service providers. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.	Service providers are appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations. Regular reports are provided by key service providers and the quality of services provided are monitored. Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.	–
Custody Assets are not safely held or are lost through exposure to Depositary, or other counterparty, or through cyber hacking.	The depositary reports on the safe custody of the Group's assets, including cash and portfolio holdings, which are independently reconciled with the Manager's records. Review of audited internal controls reports covering custodial arrangements is undertaken. An annual report from the depositary on its activities, including matters arising from custody operations is reviewed.	–

Business Model continued

Risk	Mitigation and management	Change (post mitigation and management)
Cyber The Group's service providers are all exposed to the risk of cyber attacks. Cyber attacks could lead to loss of personal or confidential information or disrupt operations.	Service providers report on cyber risk mitigation and management at least annually, which includes confirmation of business continuity capability in the event of a cyber attack.	–
Accounting, legal and regulatory In order to continue to qualify as a REIT, the Group must comply with the requirements of the REIT regime. Breaches of the TISE Listing Rules, the Companies Act or other regulations with which the Group is required to comply, could lead to a number of detrimental outcomes.	REIT arrangements reviewed each year by tax advisors. Confirmation of compliance with relevant laws and regulations by key service providers. Shareholder documents and announcements, including the Group's published annual report are subject to stringent review processes. Procedures have been established to safeguard against disclosure of inside information.	–

Risk assessment and internal controls
Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the Audit Committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Group's performance or condition. No significant control failings or weaknesses were identified from the Audit Committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this report.

Viability statement
The Directors have assessed the viability of the Company over a five year period, taking into account the Company's position at 30 September 2020 and the potential impact of the principal risks and uncertainties it faces for the review period. A period of five years has been chosen as the Board believes that this reflects a suitable time horizon for strategic planning, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating costs and dividends.

In their assessment the Directors have considered each of the Group's principal risks and uncertainties detailed on pages 12 to 14, and in particular the impact of a significant fall in the value of the Group's investment portfolio. The Directors have also considered the Group's income and expenditure projections and the £12.5 million term loan repayable on 10 January 2025, and the £12.5 million revolving credit facility which expires on the same date. The Directors know of no reason that an equivalent facility will not be in place by the expiry of this credit facility.

Based on the Group's processes for monitoring operating costs, the share price discount, the Investment Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 30 September 2025. In reaching this decision, the Board has taken into account the Company's next continuation vote, to be put forward at the AGM in 2023. The Directors have no reason to believe that such a resolution will not result in the continuation of the Company.

Going concern
The Directors have examined significant areas of possible financial risk and have reviewed cash flow forecasts and compliance with the debt covenants, in particular the LTV covenant and interest cover ratio. They have 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.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

By order of the Board

Schroder Investment Management Limited
Company Secretary

2 March 2021

Board of Directors

Malcolm Naish

Independent Non-executive Chair

Date of appointment: 11 July 2012

Experience
Malcolm was the Director of real estate at Scottish Widows Investment Partnership ("SWIP") until June 2012 and was responsible for overseeing its portfolio of commercial property assets across the UK, Europe and North America.

He has more than 40 years' experience of working in the real estate industry. Prior to joining SWIP, he was Director and head of DTZ Investment Management, where he was responsible for business development in the UK and in international markets. He was also a founding partner of Jones Lang Wootton Fund Management, and UK managing Director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser.

He qualified as a chartered surveyor in 1976 and was Chairman of the Scottish Property Federation from 2010 to 2011.

Committee membership
Audit Committee, Management Engagement Committee (chair)

Current remuneration
£30,000 per annum

Paul Craig

Independent Non-executive Director

Date of appointment: 11 July 2012

Experience
Paul is Portfolio Manager at Quilter Investors. He has more than 20 years' investment experience, including 10 years at Exeter Investment Group and six years at New Star Asset Management, where he was a Director of the asset management subsidiary.

During the past 18 years, his focus has been multi-manager products with an emphasis on closed-ended funds.

He is an Associate of the UK Society of Investment Professionals.

Committee membership
Audit Committee, Management Engagement Committee

Current remuneration
£25,000 per annum

Board of Directors continued

Bill Holland

Independent Non-executive Director

Date of appointment: 1 September 2019

Experience
Bill was a senior partner in KPMG's real estate practice and was responsible for the audit of a wide range of property companies and funds encompassing investors, developers, housebuilders and surveyors in the listed and private sectors.

In his 32 year career with KPMG, he spent 25 years specialising in the real estate sector, the last 19 years as partner. He also sat on the finance committees of the British Property Federation and INREV and on a working committee of The Association of Real Estate Funds.

He is also a director and audit committee chair of CLS Holdings plc and Urban & Civic plc, and a governor at Winchester College, chairing the estate committee and sitting on the finance committee.

Committee membership
Audit Committee (chair), Management Engagement Committee

Current remuneration
£27,500 per annum

Barry Gilbertson

Independent Non-executive Director

Date of appointment: 10 February 2021

Experience
Barry is a consultant with a focus on real estate, strategy and risk, with more than 45 years' experience advising on property, including formerly as an adviser to the Bank of England and as President of the Royal Institution of Chartered Surveyors (2004-2005). Barry is a former partner in PricewaterhouseCoopers (formerly Coopers & Lybrand) and former non-executive consultant to Knight Frank LLP. He has held advisory appointments with the United Nations and the UK Government.

Barry was recently appointed as Executive Chairman of Custodian Capital Limited, a subsidiary of Mattioli Woods plc, on 4 January 2021. His previous public company independent non-executive directorships include Custodian REIT, Granite REIT and RONA Incorporated. Barry has chaired or served on various committees in these companies, including Audit (and Risk), Governance, Nominations, Strategy and Remuneration.

Barry served on the Council of The University of Bath from 2014 to 2020, previously serving on the Finance Committee and chairing the new Remuneration Committee; holds Visiting Professor appointments at two UK universities and was awarded Honorary Membership of four international professional bodies. Among his voluntary roles, Barry is Chairman of The City of Bath UNESCO World Heritage Site.

Committee membership
Audit Committee, Management Engagement Committee

Current remuneration
£25,000 per annum

Directors' Report

The Directors submit their report and the audited consolidated financial statements for the Company and its subsidiaries for the year ended 30 September 2020.

Dividend policy

The stated policy of the Company is to pay quarterly interim dividends and details of the interim dividends paid during the year are set out in Note 18 of the notes to the Group consolidated financial statements.

In accordance with the Directors' policy of paying all dividends as interim dividends, the Directors do not recommend payment of a final dividend. In line with best practice, a resolution on the Company's dividend policy will be put to shareholders at the Company's annual general meeting.

Listing requirements

Throughout the year ended 30 September 2020, the Group complied with the conditions set out in the TISE Rules for Companies. The Directors monitor the compliance at Board meetings and take advice from the Group's TISE Listing sponsor where required.

Directors and their interests

The following persons served as Directors during the year and up to the date of signing the financial statements:

Malcolm Naish

Paul Craig

Bill Holland

Barry Gilbertson (appointed 10 February 2021)

Further information about the Directors of the Company and their biographical details can be found on pages 15 and 16. No Director owns shares in the Company.

Share capital

As at the date of this report, the Company had 97,006,497 ordinary shares of 50 pence each in issue. No shares are held in treasury. Accordingly the total number of voting rights in the Company at the date of this report is 97,006,497. The total number of warrants outstanding was 4,423,876. Full details of the Company's share capital are set out in note 9 on page 56.

Substantial share interests

The Company has received notifications of the below interests in 5% or more of the voting rights attaching to the Company's issued share capital at the year end:

	Number of shares	% of total voting rights
Schroders plc	16,450,000	16.96%
IntegraLife (UK) Limited	11,697,725	12.06%
Integrated Financial Arrangements Ltd	11,641,072	12.00%
Quilter Plc	8,935,025	9.21%
CG Asset Management	7,844,226	8.09%
NW Brown Group Limited	5,948,586	6.13%
Close Group	5,181,115	5.34%

The table below shows the interests in 5% or more of the voting rights attaching to the Company's issued share capital at 2 March 2021.

	Number of shares	% of total voting rights
Integrafin Holdings plc	13,617,374	14.04%
Integrated Financial Arrangements Ltd	11,641,072	12.00%
Schroders plc	10,510,000	10.83%
Quilter Plc	8,935,025	9.21%
CG Asset Management	7,844,226	8.09%
NW Brown Group Limited	5,948,586	6.13%
Close Group	5,181,115	5.34%

Political donations

Neither the Company nor its subsidiaries has made any political donation or incurred political expenditure during the year.

Key service providers

The Investment Manager

The Company is an alternative investment fund as defined by the AIFM Directive and appointed Schroder Real Estate Investment Management Limited ("Schroders") as the Investment Manager on 13 May 2019 in accordance with the terms of an alternative investment fund manager ("AIFM") agreement. The AIFM agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party, subject to an initial three year term. As at the date of this report no such notice had been given by either party.

Schroders is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM agreement. The Investment Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate. The Investment Manager has delegated company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Investment Manager has appropriate professional indemnity insurance cover in place.

The Schroders Group manages £536 billion (as at 30 September 2020) on behalf of institutional and retail investors, financial institutions and high net-worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

The Investment Manager is responsible for operating the Group's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews annually the Investment Manager's approach to internal control to ensure it is working effectively.

The management fee payable in respect of the year ended 30 September 2020 amounted to £1,112,582 (2019: £562,000). This change is principally due to the appointment of a new Investment Manager on different terms to its predecessor, including a higher base fee and no percentage based event fees. Further details of the amounts payable to the Investment Manager are set out in Note 21 to the financial statements on page 48.

Directors' Report continued

The Board has reviewed the performance of the Investment Manager and continues to consider that it has the appropriate depth and quality of resource to deliver the Group's investment objectives over the longer term. Thus, the Board considers that Schroders' appointment under the terms of the AIFM agreement, details of which are set out above, is in the best interests of shareholders as a whole.

Depositary

INDOS Financial Limited which is authorised and regulated by the Financial Conduct Authority, carries out certain duties of a depositary specified in the AIFM Directive including, in relation to the Company, as follows:

- safekeeping of the assets of the Group which are entrusted to it;
- cash monitoring and verifying the Group's cash flows; and
- oversight of the Group and the Manager.

The Company, the Manager and the Depositary may terminate the depositary agreement at any time by giving three months' notice in writing. The depositary may only be removed from office when a new depositary is appointed by the Company.

Corporate Governance

The Board is committed to high standards of corporate governance, which meet the statutory and regulatory requirements for companies listed in Guernsey on The International Stock Exchange ("TISE") and has implemented a framework for corporate governance which it considers to be appropriate for a REIT. In this respect, the Board has chosen to incorporate the principles of corporate governance contained in the UK Corporate Governance Code (the "UKCG Code"), noting that it is not required to fully comply with or adhere to the UKCG Code. The UKCG Code is published by the UK Financial Reporting Council and is available to download from www.frc.org.uk.

Compliance statement

The TISE Listing Rules require the Company to report against a code of corporate governance, or explain the reasons for not doing so. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 26 and the viability and going concern statements set out on page 14, indicate how the Company has complied with the UKCG Code's principles of good governance and its requirements on internal control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the UKCG Code, save in respect of the appointment of a senior independent Director, where departure from the UKCG Code is considered appropriate given the Company's size and adoption of a fully outsourced model. The Board has considered whether a senior independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a senior independent Director is not considered necessary. However, the Chairman of the Audit Committee effectively acts as the senior independent Director and is available to Directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

Operation of the Board

Chair

The Chair is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chair's other significant commitments are detailed on page 15.

Role and operation of the Board

The Board is the Company's governing body; it sets the Group's strategy and is collectively responsible to shareholders for its long-term success.

The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Group continue to be met. The Board also ensures that the Manager adheres to the investment parameters set by the Board and acts within the parameters set by it in respect of any gearing.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chairman ensures that all Directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

The Board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider REIT sector, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

Training and development

On appointment, Directors receive a full, formal and tailored induction. Directors are also regularly provided with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

Conflicts of interest

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place for the Directors throughout the year under review.

The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the court. This is a qualifying third-party indemnity and was in place throughout the year under review and to the date of this report.

Directors' attendance at meetings

Four Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount of the Company's shares to underlying NAV per share and sales, marketing and PR activities of the Company; and services provided by third parties. Additional meetings of the Board are arranged as required.

The number of meetings of the Board and its committees held during the financial year and the attendance of individual Directors is shown below. Whenever possible all Directors attend the AGM.

Director	Board[1]	Audit Committee	Management Engagement Committee
Malcolm Naish	22/22	3/3	1/1
Paul Craig	22/22	3/3	1/1
Bill Holland	22/22	3/3	1/1

1. Four quarterly meetings were held during the year and the remainder of the meetings were to consider issues relating to the refinance, Covid-19, and the North West Ground Rents litigation.

Shareholders

Shareholder relations are given high priority by both the Board and the Investment Manager. The Company communicates with shareholders through its web pages and the annual and half year reports, which aim to provide shareholders with a clear understanding of the Company's activities and its results.

The chairmen of the Board and its committees attend the AGM and are available to respond to queries and concerns from shareholders.

It is the intention of the Board that the annual report and notice of the AGM be issued to shareholders so as to provide at least 21 clear days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the company secretary at the address given on the inside back cover.

The Company has adopted a policy which ensures that shareholder complaints and other shareholder communications addressed to the company secretary, the Chairman or the Board are, in each case, considered by the Chairman and the Board.

Board committees

In order to assist the Board in fulfilling its governance responsibilities, it has delegated certain functions to committees. The roles and responsibilities of these committees, together with details of work undertaken during the year under review, are outlined over the next few pages.

The reports of the audit committee and management engagement committee are incorporated and form part of the Directors' Report.

Directors' Report continued

The Board's commitment to stakeholders – section 172 Companies Act 2006 statement
The Directors take their responsibilities under section 172 of the Companies Act seriously and are committed to engaging with and, understanding the views of, the Company's stakeholders and to taking those views into account in the Board's decision-making process. This statement outlines this engagement and the impact on decision-making where appropriate, and cross-refers to the decisions made by the Board during the year, detailed elsewhere in this Report.

Key stakeholders
The Board has identified its key stakeholders, which are as follows:

Shareholders – Without investors, who are willing to commit capital in return for consistent income returns by investing in a diversified portfolio of ground rents including freeholds and head leases of residential, retail and commercial properties as per the Company's investment objective and purpose, the Company would not exist.

Service providers – As an externally managed investment trust, the Board is reliant on service providers who have a direct working or contractual relationship with the Company. This includes, but is not limited to, the Investment Manager, Depositary, corporate broker, auditors, tax advisors and property valuers.

Lenders- Borrowing allows the Company's shareholders to maximise returns in favourable markets at a low cost. They have a financial interest in the success of the Company.

Residents – The Company has a diverse range of residents occupying space across the portfolio.

Local communities – Our assets are located across the United Kingdom in a range of urban and suburban environments. The buildings and their occupiers are part of the fabric of local communities.

The environment – The Company is committed to using resources such as energy, water and materials in a sustainable manner for the prevention of greenhouse gas emissions and climate change mitigation.

Engagement with key stakeholders and impact on decisions
As detailed in 'Promotion' on page 10 and 'Relations with Shareholders' on page 19, the Company engages with its shareholders. The Board considered feedback by shareholders when making decisions relating to the dividend, and when considering asset purchases, and when considering whether to extend funding to North West Ground Rents Limited.

As detailed in "Purpose, Values and Culture" on page 10, the Board engages with service providers, and receives regular reporting, either directly, or through the Investment Manager or Company Secretary, on performance and other matters. The effect of such engagement, if relevant, is detailed in the Chairman's Statement, Investment Managers' Review, Audit Committee Report and Management Engagement Committee Report.

Active and constant engagement with residents, either directly by the Investment Manager or through property managers or agents, takes place to gather intelligence as to what is important to them. Understanding changing needs, both at an individual company level, as well as on a sectoral and broader economic level, is a key tenet informing both individual asset management investment decisions as well as the longer-term strategic direction of the Company.

In terms of local communities and the environment, the Board expects the Investment Manager to engage with local communities, councils and individuals. Further information on the Manager's approach to these matters is set out in the Investment Manager's Review and the Sustainability Report on pages 4 to 9.

During the year, the Board's principal decisions have fallen into two categories. Firstly, it declared four interim dividends in respect of the year ended 30 September 2020.

Secondly, in relation to gearing, it has approved a new loan facility provided by Santander plc.

In respect of dividend payments, the Directors considered the long term consequences of paying up from the Company's distributable reserves, noted the financial position of the Company, and determined that the payment of the four interim dividends was in the best interests of it stakeholders.

In respect of gearing, the Board took into account the impact that additional funds for capital expenditure would have on the Company, and concluded that the additional funds would provide resilience for the Company in the face of unexpected events, enhance the income profile of the portfolio to the benefit of all stakeholders.

In light of the of the outsourced business model (set out further in the Directors' Report on pages 10 to 14), the impact of the Company's operations on occupiers, local communities and the environment is through the impact of its service providers, in particular, the Manager and managing agents.

The Investment Manager's Review on pages 4 to 8, sets out the key decisions which were taken during the year. Following the Covid-19 pandemic, the Manager also worked closely with tenants to help manage their safety and wellbeing and help manage cashflow.

Audit Committee Report

The responsibilities and work carried out by the audit committee during the year under review are set out in the following report. The duties and responsibilities of the committee may be found in the terms of reference which are set out on the Company's webpages, www.groundrentsincomefund.com. Membership of the committee is as set out on pages 15 and 16. The Board has satisfied itself that at least one of the committee's members has recent and relevant financial experience and that, the committee as a whole has competence.

The committee discharged its responsibilities by:

- considering its terms of reference;
- reviewing the operational controls maintained by the Manager, depositary and registrar;
- reviewing the half year and annual report and financial statements and related year end audit plan and engagement letter;
- reviewing the need for an internal audit function;
- considering the whistleblowing processes of its service providers;
- reviewing the independence of the external auditor;
- evaluating the external auditor's performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

Annual report and financial statements

During its review of the Group's financial statements for the year ended 30 September 2020, the committee, having deliberated on the Company's principal risks and uncertainties, considered the following significant issues, including consideration of principal risks and uncertainties in light of the Group's activities, and issues communicated by the auditor during its reporting:

Issue considered	How the issue was addressed
– Internal controls and risk management	– Consideration of several key aspects of internal control and risk management operating within the Manager, depositary and registrar, including assurance reports on their controls.
– Valuation and existence of investments	– Review of portfolio holdings and assurance reports on controls from the Manager and depositary. Meeting with valuer of the portfolio to discuss findings.
– The accounting treatment of North West Ground Rents Limited	– Consideration of the accounting treatment of North West Ground Rents Limited following the rejection of the proposed 'Option C' remedial solution in October 2020.
– The effect of Covid-19 on the going concern and longer term viability of the Company	– Consideration of the effect of Covid-19 which would affect the ability of the Company to continue as a going concern and its viability for the five-year period chosen by the Board.
– Recognition of ground rent and other income	– Consideration of income received against forecast.
– Compliance with the real estate investment trust qualifying rules in S1158 of the Corporation Tax Act 2010	– Consideration of the Manager's report confirming compliance and review of minimum distribution calculation.
– Calculation of the investment management fee	– Consideration of methodology used to calculate the fee, matched against the criteria set out in the AIFM agreement.
– Overall accuracy of the annual report and financial statements	– Consideration of the draft annual report and financial statements and the letter from the Manager in support of the letter of representation to the auditor.

Recommendations made to, and approved by, the Board
As a result of the work performed, the committee has concluded that the annual report and financial statements for the year ended 30 September 2020, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 26.

Audit Committee Report continued

Internal control
The UK Corporate Governance Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control and to report to shareholders that it has done so. The Audit Committee, on behalf of the Board, also regularly reviews a detailed 'Risk Matrix' identifying significant strategic, investment-related, operational and service provider-related risks and ensures that risk management and all aspects of internal control are reviewed at least twice per year.

The Company's system of internal controls is substantially reliant on the Investment Manager's and other key service providers' own internal controls and internal audit processes due to the relationships in place. Although the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. No significant issues were identified from the internal controls review.

Internal audit
The Audit Committee considered the need for an internal audit function and concluded that this was not required due to the Company's outsourced business model. Key service providers, including the Investment Manager, had robust internal audit arrangements in place and the Audit Committee received a report from the Investment Manager's internal audit team on its activities during the year.

Auditor appointment
PricewaterhouseCoopers have indicated their willingness to continue to act as auditor. Accordingly, resolutions to re-appoint PricewaterhouseCoopers as auditor to the Company, and to authorise the Directors to determine their remuneration will be proposed at the AGM.

PricewaterhouseCoopers has provided audit services to the Company since it was appointed on 23 April 2012. This is the eighth year that PricewaterhouseCoopers will be undertaking the Company's audit. The Audit Committee intends to commence a tender process before 23 April 2022.

There are no contractual obligations restricting the choice of independent auditor.

External auditor remuneration, independence and effectiveness
Annually, the Audit Committee considers the remuneration and independence of the external auditor. The Committee recommends the remuneration of the external auditor to the Board and keeps under review the ratio of audit to non-audit fees, where any have been incurred, to ensure that the independence and objectivity of the external auditor are safeguarded.

Effectiveness of the independent audit process
The Audit Committee evaluated the effectiveness of PricewaterhouseCoopers prior to making a recommendation on its appointment at the forthcoming Annual General Meeting. As part of the evaluation, the Committee considered feedback from the Investment Manager on the audit process and the half-year and year-end report from the auditor, which details the auditor's compliance with regulatory requirements, on safeguards that have been established and their own internal quality control procedures. The Audit Committee had discussions with the audit partner on audit planning, accounting policies and audit findings, and met the audit partner both with and without representatives of the Investment Manager present. The Chairman of the Audit Committee also had informal discussions with the audit partner during the course of the year. The Audit Committee is satisfied with the effectiveness of the audit.

Provision of non-audit services
The committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's auditor. The auditor may, if required, provide certain non-audit services and this will be judged on a case-by-case basis.

The auditor has not provided any non-audit services to the Company during the year (2019: none).

Bill Holland
Audit Committee Chairman

2 March 2021

Recommendations made to, and approved by, the Board:
- That PricewaterhouseCoopers be re-appointed as auditor.

Management Engagement Committee Report

The management engagement committee is responsible for (1) the monitoring and oversight of the Manager's performance and fees, and confirming the Manager's ongoing suitability, and (2) reviewing and assessing the Company's other service providers, including reviewing their fees. All Directors are members of the committee. Malcolm Naish is the chair of the committee. Its terms of reference are available on the Company's webpages, www.groundrentsincomefund.com.

Approach

Oversight of the Manager

The committee:

- reviews the Manager's performance, over the short- and long-term, against the peer group and the market.
- considers the reporting it has received from the Manager throughout the year, and the reporting from the Manager to the shareholders.
- assesses management fees on an absolute and relative basis, considering peer group and industry figures, as well as the structure of the fees.
- reviews the appropriateness of the Manager's contract, including terms such as notice period.
- assesses whether the Company receives appropriate administrative, accounting, company secretarial and marketing support from the Manager.

Oversight of other service providers

The committee reviews the performance and competitiveness of the following service providers on at least an annual basis:

- Depositary and custodian
- Corporate broker
- Registrar
- Lender

The committee also receives a report from the Company Secretary on ancillary service providers, and considers any recommendations.

The committee noted the audit committee's review of the auditor.

Application during the year

The committee undertook a detailed review of the Manager's performance and agreed that it has the appropriate depth and quality of resource to deliver the Company's investment objective.

The committee also reviewed the terms of the Investment Management agreement and agreed they remained fit for purpose.

The committee reviewed the other services provided by the Manager and agreed they were satisfactory.

The annual review of each of the service providers was satisfactory.

The committee noted that the audit committee had undertaken a detailed evaluation of the Manager, registrar, and depositary and custodian's internal controls.

Recommendations made to, and approved by, the Board:

- That the ongoing appointment of the Manager on the terms of the AIFM agreement was in the best interests of shareholders as a whole.
- That the Company's service providers' performance remained satisfactory.

Directors' Remuneration Report

Introduction

The following remuneration policy is subject to a binding vote every three years. The next vote will take place at the AGM in 2021. The below Directors' Remuneration Report is subject to an annual advisory vote. An ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

Directors' remuneration policy

The determination of the directors' fees is a matter dealt with by the Board.

It is the Board's policy to determine the level of directors' remuneration having regard to amounts payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of board and committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's articles of association. The aggregate limit of directors' fees is currently £100,000. The Board proposes that this limit be increased to £150,000 at the AGM to accommodate a handover period for any new directors as part of an orderly succession process.

The Chairman of the Board and the chair of the audit committee each receives fees at a higher rate than the other directors to reflect their additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives.

Any director who performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid additional remuneration to be determined by the directors, subject to the previously mentioned fee cap.

The Board and its committees exclusively comprise non- executive directors. No director past or present has an entitlement to a pension from the Company, and the Company has not, and does not intend to, operate a share scheme for directors or to award any share options or long- term performance incentives to any director. No director has a service contract with the Company, however directors have a letter of appointment. Directors do not receive exit payments and are not provided with any compensation for loss of office. No other payments are made to directors other than the reimbursement of reasonable out-of-pocket expenses incurred in attending to the Company's business.

Implementation of policy

The terms of directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting subject to Covid-19 restrictions. During such restrictions, interested parties are invited to email the Company Secretary on amcompanysecretary@schroders.com to arrange access to these.

The Board did not seek the views of shareholders in setting this remuneration policy. Any comments on the policy received from shareholders would be considered on a case- by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this remuneration policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the fee levels of directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the directors.

New directors are subject to the provisions set out in this remuneration policy.

Directors' annual report on remuneration

This report sets out how the directors' remuneration policy was implemented during the year ended 30 September 2020.

Consideration of matters relating to directors' remuneration

Directors' remuneration was last reviewed by the Board in December 2020. Following this review, the Board agreed that directors' fees should be maintained at their current level. These have not been increased since the Company was launched in 2012.

Fees paid to directors

The following amounts were paid by the Company to directors for their services in respect of the year ended 30 September 2020 and the preceding financial year. Directors' remuneration is all fixed; they do not receive any variable remuneration. The performance of the Company over the financial year is presented on page 4, under the heading "Performance".

	Fees		Taxable benefits		Total	
Director	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £
Malcolm Naish	**30,000**	30,000	**–**	–	**30,000**	30,000
Paul Craig	**25,000**	25,000	**–**	–	**25,000**	25,000
Bill Holland[1]	**27,500**	2,300	**–**	–	**27,500**	2,300
	82,500	57,300	**–**	–	**82,500** [2]	57,300

[1]Appointed as a director on 1 September 2019.

[2]Simon Wombwell retired as a director on 1 September 2019 and did not receive remuneration directly from the Company. The information in the above table has been audited. After the end of the period shown in this report, Barry Gilbertson was appointed to the Board on 10 February 2021 and receives a fee of £25,000 per annum, which will rise to £35,000 per annum upon him becoming Chair of the Company.

Expenditure by the Company on remuneration and distributions to shareholders

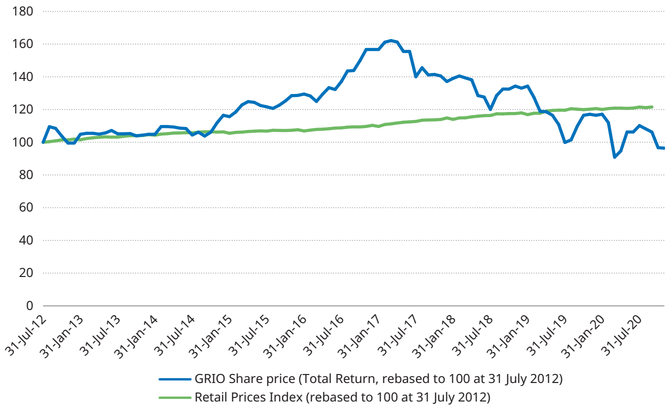
The table below compares the remuneration payable to directors to distributions made to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's investment objective.

	Year ended 30 Sep 2020 £'000	Year ended 30 Sep 2019 £'000	Change %
Remuneration payable to directors	94	83	12[1]
Distributions paid to shareholders			
Dividends	3,871	2,852	36
Total distributions paid to shareholders	3,871	2,852	36

[1] Remuneration costs increased due to Mr Simon Wombwell, an employee of the previous manager and former director, not receiving any directors' fees. On appointment, his independent replacement on the Board, Mr Holland was entitled to director's fees of £27,500 per annum.

Ten year share price and Retail Prices Index total returns

The graph below compares the Company's share price total return with the Retail Prices Index, which is considered to be an appropriate index by which to assess the Company's relative performance.



Directors' share interests

The Company's articles of association do not require directors to own shares in the Company. At present, no directors own shares in the Company.

There have been no changes notified since the year end. The information in the above disclosure has been audited.

On behalf of the Board

Malcolm Naish
Chair

2 March 2021

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and Company financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 15 and 16 of the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Relevant information is defined as "information needed by the Company's auditor in connection with preparing their report".
- Each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
- Steps that a Director ought to have taken would include making inquiries of other Directors and the auditor and any other steps required by the Director's duty to exercise due care, skill and diligence.

By order of the Board

Malcolm Naish
Chair

2 March 2021

Independent Auditors' Report to the Members of Ground Rents Income Fund plc

Report on the audit of the financial statements

Opinion

In our opinion, Ground Rents Income Fund plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2020 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 September 2020; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

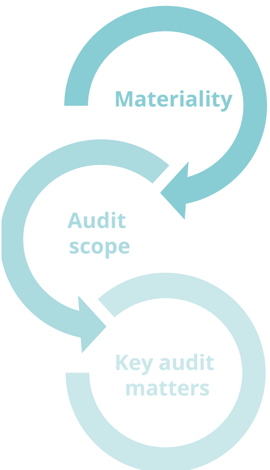
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall Group materiality: £1,285k (2019: £1,301k), based on 1% of total assets.
- Overall Company materiality: £872k (2019: £919k), based on 1% of total assets.
- For income statement line items we applied a lower specific materiality of £170k (2019: £129k) for the Group and £107k (2019: £65k) for the Company. For 2020 this is based on 5% of loss/profit before tax excluding revaluation loss and exceptional items.

- We audited the complete financial information of each entity held within the Group.

- Valuation of investment properties (Group).
- North West Ground Rents Limited legal case (Group).
- Impact of Covid-19 (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report to the Members of Ground Rents Income Fund plc continued

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties – Group Refer to page 38 (accounting policies) and page 41 to 42 (notes to the financial statements). The valuation of the investment property portfolio is inherently subjective and is underpinned by a number of assumptions. The valuation of the Group's investment properties is the key component of the net asset value and underpins the Group's result for the year. The closing investment property valuation at 30 September 2020 was £124,190k, which led to a revaluation loss for the year of £537k (2019: loss of £4,877k), which is accounted for within 'Net revaluation on investment properties' and is a significant component of the result for the year. The Group's property portfolio has been independently valued by Savills Advisory Services Limited ('Savills' or the 'Valuer') in accordance with the RICS Valuation – Professional Standard ('RICS'). In determining a property's valuation, the Valuer takes into account property-specific information such as the current rental income, the rent review mechanism and the time to the next rent review. They apply assumptions for Years Purchase (YP) multiples and estimated market rent increases, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. The Valuer's final report was unqualified, as despite the Covid-19 pandemic, the valuer concluded that the market had shown resilience to the market abnormality. Our audit paid particular attention to the impact of the Government's ongoing reforms of the residential leasehold sector, and the impact of fire safety issues on specific valuations. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage of difference in individual property valuations, when aggregated, could result in a material misstatement on the income statement and balance sheet, warrants specific audit focus in this area.	**Experience of the Valuer and relevance of their work** We read the Valuer's report and held direct discussion with Savills valuation team. We confirmed that the approaches used were consistent with the RICS guidelines and suitable for use in determining the carrying value for the purpose of the financial statements. We assessed the Valuer's qualifications and expertise and read their terms of engagement with the Group, to determine whether there were any matters that might have affected their objectivity or imposed scope limitations upon them. **Data provided to the Valuer** We performed testing, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the Valuer by management. This data included annual rental income, the rent review mechanism and the rent review cycle to supporting evidence, such as the original lease. **Assumptions and estimates used by the Valuer** We attended meetings with the Valuer independently of the manager, at which the valuations and the key assumptions therein were discussed. Our work covered the valuation of every property in the Group. We challenged management's expert on the consistency of the application of the key assumptions used in the valuations, including the YP multiple, and ensured the responses reflected the particular characteristics of each property. This challenge also considered whether the review methodology for the properties required any adjustment given the market effects of Covid-19, residential leaseholder reform and fire safety issues. Our testing which involved the use of our internal real estate valuation specialists, qualified chartered surveyors with deep market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and reflected the circumstances of the market at the balance sheet date.
North West Ground Rents Limited legal case – Group Refer to pages 38 (accounting policies) and 48 (notes to the financial statements) A subsidiary of the Company, North West Ground Rent Limited (NWGR) lost a legal claim brought about by one of the tenants of a property owned by NWGR during 2019. The legal judgement makes NWGR responsible for remedial works associated with the property, a damages claim brought about by the tenant, and associated costs. During 2020, NWGR made a claim to the courts to vary the specific external repair methodology to an alternative, cheaper repair scheme. On 20 October 2020 the High Court found against NWGR's application to vary the repair scheme, stating the original methodology needed to be carried out.	We challenged management over the accounting treatment in relation to inclusion of the subsidiary NWGR's liabilities within the Group's results. We also reviewed their accounting analysis in relation to the treatment of the court judgement as an adjusting post balance sheet event. We discussed the ongoing claim with management, and reviewed correspondence and other documents exchanged between NWGR and the other parties involved in the ongoing mediations. We obtained and reviewed management's estimate of the cashflows associated with the legal judgement, including management expert's analysis of the costs needed to make the court appointed remedial improvements to the property. This analysis is consistent with that shared with the courts and assumes that some of the costs associated with the legal claim will be recoverable by third parties and existing leaseholders. We challenged management on the recoverability of these amounts, including reviewing the legal advice commissioned by management to justify the likelihood of successfully reclaiming a proportion of the costs incurred.

Key audit matter	How our audit addressed the key audit matter
Management have subsequently stated their intention to sell NWGR for a nominal amount as soon as practicably possible, or to withdraw support for NWGR which is likely to lead to the director of NWGR placing it into liquidation. Despite management's intentions, NWGR remained a subsidiary at the balance sheet date and therefore all liabilities of that subsidiary are included in the consolidated results of the Group. Whilst this judgement was delivered after the balance sheet date, a provision of £2,900k has been created as management's best estimate of the additional costs after deducting recoveries, as this was assessed to be an adjusting post balance sheet event. Management have also made a change to their accounting policies in relation to exceptional costs, to separately disclose the impact of the NWGR case in the statement of comprehensive income. The estimation of the future costs that are obliged to be paid by NWGR is judgemental, as is the likelihood of recovery of some of those costs by third parties and leaseholders.	We reviewed the disclosures in the financial statements, to ensure compliance with the correct accounting standards including the change to the accounting policies in relation to exceptional items. Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the provision to be reasonable.
Impact of Covid-19 – Group and Company The ongoing and evolving Covid-19 pandemic, and the related government response to this crisis, is having a significant impact on the economy of the UK. There is a high level of uncertainty as to the duration of the pandemic and what its lasting impact will be on the economy. The Directors have considered the potential impact to the Group of the ongoing Covid-19 pandemic, including in their assessment of going concern and viability and the impact on property valuations. Management has concluded that the Group and Company expect to trade solvently for at least 12 months from the date of this report and cash flow forecasts support management's viability conclusions. The Directors have therefore prepared the Group and Company financial statements on a going concern basis, and believe this assumption remains appropriate.	We assessed the impact of Covid-19 on property valuations as explained by the above key audit matter. We have reviewed management's forward looking cash flow forecasts and third party debt covenant calculations which were used in management's going concern analysis. We have also reviewed the trade receivable aging and Covid-19's impact on the non collection of rent. As a result of these procedures, we concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group engagement team audited all entities within the Group and therefore all audit matters relevant to the Group were communicated on a frequent basis.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group and Company overall materiality	Group and Company specific materiality for income statement account balances
Overall materiality	Group: £1,285k (2019: £1,301k) Company: £872k (2019: £919k)	Group: £170k (2019: £129k) Company: £107k (2019: £65k)
How we determined it	1% of total assets.	5% of loss/profit before tax excluding revaluation loss and exceptional items
Rationale for benchmark applied	The key measure of the Group and Company's performance is the valuation of investment properties and the balance sheet as a whole. Given this, consistent with the prior year, we set an overall Group materiality level based on total assets.	In addition to the overall materiality, a specific materiality was applied to income statement account balances. In 2020 this was determined on the basis of 5% loss/ profit before tax excluding the revaluation loss and exceptional costs. A specific materiality was considered as the most appropriate method to ensure sufficient coverage across the income statement.

Independent Auditors' Report to the Members of Ground Rents Income Fund plc continued

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1k and £444k. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £64k (Group audit) (2019: £65k) and £43k (Company audit) (2019: £45k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 and ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

2 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2020

	Note	2020 £	Restated* 2019 £
Continuing operations			
Revenue	2	**6,066,125**	5,638,348
Operating expenses	3	**(6,775,027)**	(2,809,134)
Profit on sale of investment properties		**315,270**	485,145
Net revaluation loss on investment properties	8	**(537,301)**	(4,876,845)
Operating loss		**(930,933)**	(1,562,486)
Analysed as			
Operating profit/(loss) before exceptional items		**3,520,937**	(299,972)
Litigation costs	3	**(1,551,870)**	(1,262,514)
Provision for remedial works	3	**(2,900,000)**	–
Operating loss		**(930,933)**	(1,562,486)
Finance income	5	**16,469**	25,903
Finance expenses	6	**(671,739)**	(752,539)
Net finance expense		**(655,270)**	(726,636)
Loss before tax		**(1,586,203)**	(2,289,122)
Taxation	7	**–**	–
Loss after tax and total comprehensive loss		**(1,586,203)**	(2,289,122)
Loss per share			
Basic	13	**(1.64p)**	(2.36p)
Diluted	13	**(1.64p)**	(2.36p)

The accompanying notes on pages 36 to 48 form an integral part of the consolidated financial statements.

* See note 1 Exceptional items

Consolidated Statement of Financial Position

As at 30 September 2020

	Note	2020 £	2019 £
Assets			
Non-current assets			
Investment properties	8	**124,190,000**	122,893,000
		124,190,000	122,893,000
Current assets			
Trade and other receivables	9	**1,852,415**	1,110,402
Interest rate derivative contracts		**14,158**	–
Cash and cash equivalents		**2,435,758**	6,136,854
		4,302,331	7,247,256
Total assets		**128,492,331**	130,140,256
Liabilities			
Non-current liabilities			
Financial liabilities measured at amortised cost	11	**(18,991,454)**	(19,304,928)
Provision for liabilities	22	**(2,900,000)**	–
		(21,891,454)	(19,304,928)
Current liabilities			
Trade and other payables	10	**(4,042,765)**	(2,820,454)
Total liabilities		**(25,934,219)**	(22,125,382)
Net assets		**102,558,112**	108,014,874
Equity			
Share capital	15	**48,503,248**	48,503,248
Share premium account	16	**–**	45,884,305
Retained earnings	17	**55,641,067**	15,916,443
Loss for the financial year	17	**(1,586,203)**	(2,289,122)
Total equity		**102,558,112**	108,014,874
Net asset value per ordinary share			
Basic	14	**105.7p**	111.3p
Diluted	14	**105.5p**	110.9p

The financial statements on pages 32 to 35 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Robert Malcolm Naish
Director

William Edward John Holland
Director

Ground Rents Income Fund plc
Company registered number: 08041022

Date 2 March 2021

The accompanying notes on pages 36 to 48 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 September 2020

	Note	2020 £	2019 £
Cash flows from operating activities			
Cash generated from operations	19	**2,671,395**	3,830,532
Interest paid on bank loan and bank charges		**(536,077)**	(659,304)
Net cash generated from operating activities		**2,135,318**	3,171,228
Cash flows from investing activities			
Interest received		**16,445**	25,903
Receipts from the sale of investment properties		**347,203**	513,221
Purchase of investment properties	8	**(1,861,466)**	(288,121)
Net cash (used in)/generated from investing activities		**(1,497,818)**	251,003
Cash flows from financing activities			
Net proceeds from issuance of shares	19	**–**	50
Bank loan receipts		**4,000,000**	–
Bank loan payments		**(4,000,000)**	–
Debt issue costs		**(417,387)**	–
Purchase of interest rate cap		**(50,650)**	–
Dividends paid to shareholders	18	**(3,870,559)**	(2,851,988)
Net cash used in financing activities		**(4,338,596)**	(2,851,938)
Net (decrease)/increase in cash and cash equivalents	20	**(3,701,096)**	570,293
Net cash and cash equivalents at the beginning of the year		**6,136,854**	5,566,561
Net cash and cash equivalents at the end of the year		**2,435,758**	6,136,854

The accompanying notes on pages 36 to 48 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2020

	Share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 October 2018	**48,503,198**	**45,884,305**	**18,768,431**	**113,155,934**
Comprehensive loss				
Loss for the year	–	–	(2,289,122)	(2,289,122)
Total comprehensive loss	–	–	(2,289,122)	(2,289,122)
Transactions with owners				
Issue of share capital (note 15)	50	50	–	100
Share issue costs (note 16)	–	(50)	–	(50)
Dividends paid (note 18)	–	–	(2,851,988)	(2,851,988)
At 30 September 2019	**48,503,248**	**45,884,305**	**13,627,321**	**108,014,874**
Comprehensive loss				
Loss for the year	–	–	(1,586,203)	(1,586,203)
Total comprehensive loss	–	–	(1,586,203)	(1,586,203)
Transactions with owners				
Share premium account reduction (note 16)	–	(45,884,305)	45,884,305	–
Dividends paid (note 18)	–	–	(3,870,559)	(3,870,559)
At 30 September 2020	**48,503,248**	**–**	**54,054,864**	**102,558,112**

The accompanying notes on pages 36 to 48 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2020

1 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 consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group").

Statement of compliance

The consolidated financial statements of the Group have been prepared 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.

Basis of preparation

The consolidated financial statements 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 applied to the results, assets, liabilities and cash flows of the entities included in the consolidated financial statements are consistent with those of the previous year other than as set out below.

Going concern

In March 2020 the World Health Organisation declared the outbreak of the Novel Coronavirus ("Covid-19") a global pandemic. Subsequently, the Directors have examined significant areas of possible financial risk including: the non-collection of rent as a result of the Covid-19 pandemic and potential resulting falls in property valuations; and the future implications of potential leasehold reform. The Manager has prepared detailed forward-looking cash flow forecasts and third party debt covenant calculations, in particular the Loan to Value covenant and interest cover ratios.

The Board and Manager are closely monitoring the potential ongoing impact the Covid-19 pandemic may have on the Company's rental collection, which has remained strong during the year and to the date of this report, and the requirement to distribute dividends in accordance with REIT regulations. The Company's dividend policy will be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements. Further details can be found within the Chairman's statement on page 3 and the Directors' Report on page 17.

In January 2020 the Group completed a refinancing of the facility held with Santander. Half of the facility is a £12.5 million fixed rate loan attracting a total interest rate of 2.68% per annum, compared to a previous rate of 3.37%. The Group also arranged a £12.5 million revolving credit facility ("RCF") with Santander. As at the year end, the undrawn capacity was £5.5 million. The RCF is an efficient and flexible source of funding at an interest rate of 1.85% per annum plus three month LIBOR which can be repaid and redrawn as often as required.

The Directors have 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 twelve months from the date of the approval of the consolidated financial statements.

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

- The current cash balance at 26 February 2021 of approximately £2.2 million;
- The nature and timing of the Group's income and expenses;
- Obligations for remedial works within the Group; and
- That the Manager continues to implement its business continuity plans to help ensure the safety and well-being of its staff thereby retaining the ability to maintain the Group's business operations.

The Directors have 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 Group consolidated financial statements.

Adoption of new and revised standards

During the year, the Group adopted the following standards:

IFRS 16 – Leases

The new standard requires recognition on the balance sheet for the head rent payable by a lessee over the lease term. For lessees, it will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases will be removed. The accounting for lessors has not significantly changed.

The Group adopted IFRS 16 Leases on 1 October 2019. This standard does not impact the Group's financial position since it is a lessor of investment properties and has no other operating leases.

1 Accounting policies continued

New standards and interpretations not yet adopted by the Group

IFRS 3 – Business Combinations

Amendments to IFRS 3 Business Combinations, effective for financial years commencing on or after 1 January 2020, provides a revised framework for evaluating a business and introduces an optional 'concentration test'. The amendment will impact the assessment and judgements used in determining whether future property transactions represent an asset acquisition or business combination. As a result of the amendment it is expected that future transactions are more likely to be treated as an asset acquisition.

There are no other standards or interpretations yet to be effective that would be expected to have a material impact on the financial statements of the Group.

Use of estimates and judgements

The preparation of financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, 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 most significant estimates made in preparing the consolidated financial statements relate to the carrying value of investment properties, as disclosed in note 8, which 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.

A further significant estimate is the provision for the liability for the works required to repair investment properties, which represents a shortfall between future payments and future receipts. The evaluation included analysis of inputs and outputs such as: estimates for repair works, and the probability and sum of expenditure recovery under leasehold agreements and from other third parties. Further details can be found in note 22 Provisions for liabilities.

Another significant estimate is the IFRS 9 expected credit loss. IFRS 9 requires an impairment review to be made for certain financial assets held on a Group's balance sheet using a forward-looking expected credit loss model. Where any impairment is required to be made, appropriate recognition is required in the Consolidated Statement of Comprehensive Income together with appropriate disclosure in the notes to the consolidated financial statements. Within the Company financial statements, all intercompany loans are considered to be such financial assets and must therefore be assessed at each reporting period for potential impairment, with appropriate disclosures.

Basis of consolidation

The Group's financial statements comprise a consolidation of the financial statements of the parent company (Ground Rents Income Fund plc) and its subsidiaries. The financial statements of the subsidiaries are prepared using consistent accounting policies. Subsidiaries are entities controlled by the Group and control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of the subsidiaries are included from the date on which control is transferred to the Group. Financial statements of subsidiaries are deconsolidated from the date on which control ceases.

All intra-group transactions and balances are eliminated on consolidation.

Revenue

Revenue represents the value of ground rent income due in the year together with any supplementary income earned in the year, including insurance income, tenant fees, lease restructure premiums and other income. The policy is in line with IFRS 15 – Revenue from contracts with customers.

Rental income, including fixed rental uplifts, from investment property leased out under operating leases is recognised as revenue on a straight-line basis over the lease term, apart from:

- Any rent adjustments based on open market estimated rental values or indexed-linked rent reviews which are recognised, based on management estimates, from the rent review date in relation to unsettled rent reviews; and
- Contingent rents, being those lease payments that are not fixed at the inception of the lease, which are recognised in the period they are earned and as defined by the lease.

Finance income and expenses

Finance income comprises interest receivable on bank deposits. Finance expenses comprise interest payable and transaction costs incurred in connection with the borrowing of funds of the facilities. Finance income and expenses are recognised in the Consolidated Statement of Comprehensive Income on an accruals basis in the period to which they relate.

Taxation

Tax on the profit for the year comprises current tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

1 Accounting policies continued

Deferred tax

Generally, the Group is not exposed to deferred tax because it is a REIT. REITs do not pay tax on property income and gains.

Exceptional items

The Group's Consolidated 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 Manager and reported to the Directors. Disclosing exceptional items separately provides additional understanding of the performance of the Group.

The Directors have retrospectively applied the policy to the year ended 30 September 2019 (as presented within the restated Consolidated Statement of Comprehensive Income and note 3 Operating expenses) and reclassified the £1.3 million of prior year costs from operating expenses to exceptional items. This enables the reader to identify the costs incurred in both financial years in connection with the litigation at Beetham Tower, Manchester, a mixed use residential and hotel asset owned by the Group subsidiary, NWGR. This follows the High Court finding in October 2020 against NWGR in its application to vary the remedial work to the building and subsequent requirement to recognise the future liability for the remedial solution. Apart from this reclassification of exceptional costs within the Consolidated Statement of Comprehensive Income, there is no other impact on the comparative consolidated financial statements of the Group. Further details can be found in note 3 Operating expenses and note 22 Provisions for liabilities.

Investment properties

Investment properties are carried in the Consolidated Statement of Financial Position at their open market value. The Directors have applied the fair-value model in IAS 40 – Investment Property. Investment properties are revalued at the Consolidated Statement of Financial Position date by an independent valuer. The fair value also reflects estimated future cash flows. Expenses that are directly attributable to the acquisition of an investment property are capitalised into the cost of investment. Gains and losses on changes in fair value of investment properties are recognised in the Consolidated Statement of Comprehensive Income. The Directors instruct the independent valuers biannually and, in addition, on acquisition of investment properties as the need arises. Gains and losses on changes in fair value are recognised at the time of each valuation.

Cash and cash equivalents

Cash comprises call deposits held with banks.

Capital management

The capital managed by the Group consists of cash held across different bank accounts in several banking institutions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day-to-day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of individual assets. The Group monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly basis. Following the Santander loan refinancing in January 2020, the Group has a fully drawn down £12.5 million fixed rate debt facility and a £12.5 million RCF facility, of which £7 million is drawn down, which both expire in January 2025. See note 12 – Financial Instruments for further information on the loan. Associated costs are capitalised and amortised over the duration of the loan.

Derivative financial assets and liabilities

Derivative financial assets and liabilities comprise an interest rate cap for hedging purposes, as an economic hedge. This has been initially recognised at cost and subsequently revalued to fair value, with the revaluation gains or losses recognised in the Consolidated Statement of Comprehensive Income.

Financial assets and liabilities

Non-derivative financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. These are initially recognised at fair value and subsequently measured at amortised cost and discounted as appropriate. On initial recognition and at each period end the Group calculates the expected credit loss for non-derivative assets based on lifetime expected credit losses under the IFRS 9 simplified approach.

Deferred income

Deferred income arises because ground rents are usually billed annually in advance. Deferred income is held in the deferred income account within payables and released to the Consolidated Statement of Comprehensive Income over the period to which it relates.

Amortisation of loan arrangement fees

Loan arrangement fees are capitalised and deducted from the amount outstanding on the loan. They are expensed to the Consolidated Statement of Comprehensive Income over the period of the loan facility. This loan amortisation is included within finance expenses in the consolidated financial statements.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1 Accounting policies continued

Ordinary share capital

Ordinary share capital is classed as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the share premium account.

Warrants

Warrants were issued on a one for five basis with the issue of the ordinary share capital in August 2012. Each warrant gives the holder the right to subscribe for an ordinary share for £1 on the anniversary of their issue for a period of ten years.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's Directors.

2 Segmental reporting

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 following 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.

	2020 £	2019 £
By activity		
Ground rent income	**4,855,924**	4,796,641
Other income	**1,210,201**	841,707
	6,066,125	5,638,348

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 Consolidated Financial Statements continued

For the year ended 30 September 2020

3 Operating expenses

	2020 £	Restated* 2019 £
Directors' salaries (note 4)	**93,772**	71,697
Auditors' remuneration – see below	**145,000**	88,935
Management fees	**1,112,582**	562,234
Professional fees excluding exceptional items	**600,398**	467,775
Insurance	**49,517**	24,083
Sponsor fees	**65,014**	55,170
Valuation fees	**47,262**	95,559
Registrar fees	**72,216**	27,207
Listing fees	**19,168**	30,559
Public relations and printing costs	**29,020**	29,548
Other operating expenses	**89,208**	93,853
Operating expenses before exceptional items	**2,323,157**	1,546,620
Litigation costs	**1,551,870**	1,262,514
Provision for remedial works	**2,900,000**	–
Total operating expenses	**6,775,027**	2,809,134

*See note 1 Exceptional items. Litigation costs have been incurred in connection with the ongoing litigation within a wholly owned subsidiary NWGR. The provision for remedial works is a provision under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (see note 22), again in connection with NWGR.

No direct operating expenses were incurred in relation to investment property in the year (2019: £nil).

Services provided by the Company's auditors:

	2020 £	2019 £
Fees payable to the auditors for the audit of parent company and consolidated financial statements	**76,500**	32,000
Fees payable to the auditors for other services:		
– The audit of the Group's subsidiaries	**68,500**	56,935
	145,000	88,935

4 Directors' emoluments

The Directors are the only officers of the Company and there are no other key personnel. The average number of Directors during the year was 3 (2019: 3). The Directors' annual remuneration for services is set out in the Directors' Remuneration Report on pages 24 and 25. The total charge for Directors' fees is shown in note 3 and is inclusive of employer's National Insurance Contributions. There were no post-employment benefits, other long-term benefits, termination benefits or share-based payments accrued or paid out in the year (2019: none).

5 Finance income

	2020 £	2019 £
Interest on bank deposits	**16,469**	25,903

6 Finance expenses

	2020 £	2019 £
Loan interest	**498,437**	655,099
Amortisation of loan arrangement fees and bank charges	**136,810**	97,440
Net change in fair value of financial instruments	**36,492**	–
	671,739	752,539

6 Finance expenses continued

Following the modification to the loan facility during the year, additional loan arrangement and associated professional fees of £0.25 million have been capitalised and deducted from the total loan amount outstanding. Total capitalised fees of £0.5 million at the year end date are to be amortised over the period to January 2025. See note 11 for further details.

7 Taxation

The Company applied to HMRC to join the REIT taxation regime on 14 August 2012. The REIT regime affords the Company a number of potential efficiencies in its tax affairs including exemption from UK corporation tax on profits and gains from its UK property rental business. The Company is compliant with the rules of the REIT regime in order to achieve these potential benefits. No tax charge arose in the year (2019: £nil). For the current year ended 30 September 2020, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the year. If there were any non-qualifying profits and gains, these would be subject to corporation tax.

	2020 **£**	2019 £
Loss before taxation	**(1,586,203)**	(2,289,122)
Standard rate of corporation tax in the UK	**19%**	19%
	£	£
Loss before taxation multiplied by the standard rate of corporation tax	**(301,379)**	(434,933)
Effects of:		
Unrealised revaluation loss not tax deductible	**109,397**	926,601
Property loss/(profit) not tax deductible under the REIT regime	**191,982**	(491,668)
Total tax charge for year	**–**	–

Deferred tax

No deferred tax arises on revaluation of investment properties due to the REIT status of the Company. UK REITs are exempt from Capital Gains Tax on property sales.

Factors affecting current and future tax charges

The Government has announced that the corporation tax standard rate will also be set at 19% for the financial year beginning 1 April 2021.

8 Investment properties

	£
Fair value	
At 30 September 2018	127,509,800
Additions	288,121
Disposals	(28,076)
Net loss recognised in Consolidated Statement of Comprehensive Income	(4,876,845)
At 30 September 2019	122,893,000
Additions	1,861,466
Disposals	(27,165)
Net loss recognised in Consolidated Statement of Comprehensive Income	(537,301)
At 30 September 2020	124,190,000

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).

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

8 Investment properties continued

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 year.

Key assumptions within the basis of fair value are:

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 2020, incorporating the IVSC International Valuations Standards (the "Red Book Global Standards"), 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 30 September 2020 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.

Information about fair value measurement using significant unobservable inputs (Level 3):

Valuation Category – type of rent review

30 September 2020	**Indexed**	**Doubling**	**Fixed increases**	**Flat**
Cost (£)	**76,894,000**	**13,289,000**	**6,464,000**	**5,756,000**
Fair value (£)	**92,174,000**	**18,841,000**	**7,589,000**	**5,586,000**
Gross rent roll (£)	**3,506,000**	**757,000**	**330,000**	**327,000**
Rental yield on purchase price	**4.6%**	**5.7%**	**5.1%**	**5.7%**
Rental yield on fair value	**3.8%**	**4.0%**	**4.3%**	**5.9%**

30 September 2019	Indexed	Doubling	Fixed increases	Flat
Cost (£)	74,324,000	13,867,000	6,708,000	5,759,000
Fair value (£)	89,240,000	19,389,000	8,306,000	5,958,000
Gross rent roll (£)	3,366,000	776,000	343,000	335,000
Rental yield on purchase price	4.5%	5.6%	5.1%	5.8%
Rental yield on fair value	3.8%	4.0%	4.1%	5.6%

All categories of ground rent investment properties have been valued by independent valuers using available market comparisons. During the year, some assets held with doubling rent reviews transitioned to a flat review profile.

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

+/- effect on valuation	Indexed	Doubling	Fixed increases	Flat
Impact on fair value of 1 YP change (£)	3,506,000	757,000	330,000	327,000

The average YP across the portfolio is 25.2 (2019: 25.5).

Included within the Group portfolio valuation is a £nil (2019: £nil) value for the investment property Beetham Tower, Manchester, held within the NWGR subsidiary undertaking. The Directors have introduced a provision under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" to reflect the costs for remedial works (see note 22) in connection with the remediation of the asset.

9 Trade and other receivables

	2020 £	2019 £
Trade receivables	**654,035**	679,576
Other receivables	**1,130,606**	381,847
Prepayments and accrued income	**67,774**	48,979
	1,852,415	1,110,402

The fair value of trade and other receivables is equal to the book value.

The ageing analysis of trade receivables is as follows:

	2020 £	2019 £
Up to 3 months	**208,989**	383,263
Over 3 months	**445,046**	296,313
	654,035	679,576

Management consider the trade receivables to be fully collectable due to the secure nature of the receipts. The Directors believe all financial assets that are neither past due nor impaired to be fully recoverable as the amounts are represented by either cash held at a secure client account at the Company's solicitors or other trading amounts which are considered fully recoverable and of good quality. Therefore no expected credit loss by ageing is presented above. Accordingly, the provision for doubtful debts at 30 September 2020 was nil (2019: £nil).

10 Trade and other payables

	2020 £	2019 £
Trade payables	**245,770**	16,163
Other taxes and social security costs	**193,856**	14,106
Other payables	**45,992**	124,764
Accruals	**1,636,701**	1,267,706
Deferred income	**1,920,446**	1,397,715
	4,042,765	2,820,454

Trade payables and Other taxes and social security amounts fall due within the next three months.

11 Financial liabilities measured at amortised cost

	2020 £	2019 £
Bank loans repayable over one year	**19,500,000**	19,500,000
Capitalised loan arrangement fees net of amortisation	**(508,546)**	(195,072)
	18,991,454	19,304,928

On 10 January 2020, the existing loan facility with Santander UK plc was amended and split into two facilities totalling £25 million. Of the total amount drawn, £12.5 million is held as a term loan and matures on 10 January 2025 and carries a fixed interest rate of approximately 2.68% per annum, payable quarterly. The remaining £7 million is held within a coterminous £12.5 million Revolving Credit Facility ("RCF"), which carries an interest rate per annum of 1.85% plus three month LIBOR, 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 period of the loan.

The lender has charges over investment property owned by the Group with a value of £63.6 million. A pledge of all shares in the borrowing Group company and loan obligor companies is in place.

As at the year end date, 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

11 Financial liabilities measured at amortised cost continued

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

The combined amended facility has a loan-to-value ("LTV") covenant of 50% and interest cover covenant of 270%. The Group was in full compliance with the covenants throughout the year. As at the year end the actual LTV over secured assets was 30.6% with headroom of £24.6 million and interest cover was 403.1% with headroom of £0.6 million.

Group borrowings

At 30 September 2020, Group borrowings were 15.7% (30 September 2019: 15.9%) of non-current assets.

Leverage ratio

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives.

It is expressed as a ratio between the Group's gross assets and its NAV and is calculated under the gross and commitment methods, in accordance with the AIFMD. This differs to the Group's borrowing restriction which is expressed as an absolute measure as quoted above.

The Group is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 30 September 2020, and are as follows:

Leverage exposure	Maximum limit	Actual exposure
Gross method	175%	120%
Commitment method	175%	122%

The gross method represents the sum of the Group's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Group's positions without deducting cash balances.

12 Financial instruments

The Group's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations.

Financial assets carried at amortised cost

The book value and fair value profile of the Group's financial assets, were as follows:

	2020		2019	
	Book value £	**Fair value £**	Book value £	Fair value £
Trade receivables	**654,035**	**654,035**	679,576	679,576
Other receivables	**1,130,606**	**1,130,606**	381,847	381,847
Cash at bank and in hand	**2,435,758**	**2,435,758**	6,136,854	6,136,854

As of 30 September 2020 no trade receivables (2019: £nil) were impaired or provided for as detailed in note 9.

Financial liabilities carried at amortised cost

The book value and fair value profile of the Group's financial liabilities, were as follows:

	2020		2019	
	Book value £	**Fair value £**	Book value £	Fair value £
Trade payables	**245,770**	**245,770**	16,163	16,163
Other payables and accruals	**1,876,549**	**1,876,549**	1,406,576	1,406,576
Bank loans	**18,991,454**	**18,991,454**	19,304,928	19,304,928

Financial risk management

The Group has identified the risks arising from its activities and has established policies and procedures as part of a formal structure of managing risk.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day to day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of additional assets. The Group monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly basis.

12 Financial instruments continued

A gearing ratio measures the proportion of a Group's borrowed funds to its equity. The Group's gearing ratio at the year end date was as follows:

	2020 £	2019 £
Cash and cash equivalents	**2,435,758**	6,136,854
Total borrowings (note 11)	**(18,991,454)**	(19,304,928)
Net debt	**(16,555,696)**	(13,168,074)
Total equity	**102,558,112**	108,014,874
Total capital	**86,002,416**	94,846,800
Gearing ratio	**18.5%**	17.9%

Credit risk
Cash deposits are placed with a number of financial institutions whose financial strength and credit quality have been considered by the Directors based on advice received from the AIFM. The panel of suitable counterparties is subject to regular review by the Board.

Interest rate risk
The Company places excess cash of the Group on deposit in interest-bearing accounts to maximise returns.

Liquidity risk
Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Directors, based on advice received from the AIFM, manage and monitor short-term liquidity requirements to ensure that the Group maintains a surplus of immediately realisable assets over its liabilities, such that all known and potential cash obligations can be met.

13 Loss per share

Basic loss per share
Losses used to calculate loss per share in the financial statements were:

	2020 £	2019 £
Loss attributable to equity shareholders of the Company	**1,586,203**	2,289,122
Basic Loss per share has been calculated by dividing losses by the weighted average number of ordinary shares in issue throughout the year		
Weighted average number of shares in issue in the year	**97,006,497**	97,006,402
Basic loss per share	**(1.64p)**	(2.36p)

Diluted loss per share
Diluted loss per share is the basic loss per share, adjusted for the effect of contingently issuable warrants in issue during the year, weighted for the relevant periods. There was no potential dilutive impact of warrants at the beginning nor the end of the year.

Diluted losses per share	**(1.64p)**	(2.36p)

14 Net asset value per ordinary share

The NAV calculates the net asset value per share in the financial statements. 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.

	2020 £	2019 £
Net assets	**102,558,112**	108,014,874
	Number	Number
Number of ordinary shares in issue	**97,006,497**	97,006,497
Outstanding warrants in issue	**4,423,876**	4,423,876
Diluted number of shares in issue	**101,430,373**	101,430,373
NAV per ordinary share – basic	**105.7p**	111.3p
NAV per ordinary share – dilutive	**105.5p**	110.9p

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

15 Share capital

	2020 Number	2020 £	2019 Number	2019 £
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	**97,006,497**	**48,503,248**	97,006,497	48,503,248

	2020 Number	2020 £	2019 Number	2019 £
Shares issued during the year:				
Ordinary shares of £0.50 each	**–**	**–**	100	50

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 in each year following admission up to and including 31 August 2022. 100 warrants were exercised and ordinary shares issued in September 2019. No warrants were exercised and thus no ordinary shares issued in the year to September 2020. At 30 September 2020 there were 4,423,876 warrants in issue.

16 Share premium account

	2020 £	2019 £
At the beginning of the year	**45,884,305**	45,884,305
Shares issued	**–**	50
Expenses of issue	**–**	(50)
Conversion of share premium into distributable reserves	**(45,884,305)**	–
At the end of the year	**–**	45,884,305

General meetings of the ordinary shareholders and warrantholders were held in November 2019 to approve the conversion of the Company's share premium account into distributable reserves. Both resolutions passed and the related court process to permit the reduction of the share premium account was completed during the year.

17 Retained earnings

	2020 £	2019 £
At the beginning of the year	**13,627,321**	18,768,431
Conversion of share premium into distributable reserves	**45,884,305**	–
Dividends paid	**(3,870,559)**	(2,851,988)
Retained earnings	**55,641,067**	15,916,443
Loss for the financial year	**(1,586,203)**	(2,289,122)
At the end of the year	**54,054,864**	13,627,321

18 Dividends

It is the policy of the Group to pay quarterly interim dividends to ordinary shareholders. The interim dividend relating to the fourth quarter of the year was paid in November 2020.

	2020 £	2019 £
Dividends declared and paid by the Company during the year	**3,870,559**	2,851,988
Analysis of dividends by type:		
Interim PID dividend of 0.98p per share	**–**	950,663
Interim PID dividend of 0.98p per share	**–**	950,662
Interim PID dividend of 0.98p per share	**–**	950,663
Interim PID dividend of 1.02p per share	**989,467**	–
Interim PID dividend of 0.99p per share	**960,364**	–
Interim PID dividend of 0.99p per share	**960,364**	–
Interim PID dividend of 0.99p per share	**960,364**	–
	3,870,559	2,851,988
Since the year end, the following dividends have been announced and paid:		
Interim PID dividend of 0.99p per share	**960,364**	
Interim PID dividend of 0.99p per share	**960,364**	

19 Cash generated from operations

Reconciliation of operating loss to net cash inflow from operating activities

	2020 £	2019 £
Loss before tax	**(1,586,203)**	(2,289,122)
Adjustments for:		
Net revaluation loss on investment properties	**537,301**	4,876,845
Profit on sale of ground rent assets and leasehold property	**(315,270)**	(485,145)
Net finance expense	**655,270**	726,636
Exceptional items – provision for remedial works	**2,900,000**	–
Operating cash flows before movements in working capital	**2,191,098**	2,829,214
Movements in working capital:		
(Increase)/decrease in trade and other receivables	**(742,013)**	784,869
Increase in trade and other payables	**1,222,310**	216,449
Net cash generated from operations	**2,671,395**	3,830,532

Proceeds of share issue

The proceeds from issue of shares is as follows:

	2020 £	2019 £
Warrants converted on 13 September 2019	**–**	100
Share issue costs associated with issue of ordinary shares	**–**	(50)
	–	50

20 Analysis of changes in net debt

	At 1 October 2019 £	Cash flows £	Capitalisation of finance costs £	Amortisation of finance costs £	**At 30 September 2020 £**
Cash and cash equivalents	6,136,854	(3,701,096)	–	–	**2,435,758**
Bank loans	(19,304,928)	–	417,387	(103,913)	**(18,991,454)**
Total	(13,168,074)				**(16,555,696)**

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

21 Related party transactions

The Company's balances with fellow group companies at 30 September 2020 are set out in note 14 to the Company's financial statements.

Brooks Macdonald Funds Limited ("BMF") provided investment management and administration services to the Company up until 12 May 2019, the fees for which were 0.55% per annum of the market capitalisation of the Company. In addition, BMF was entitled to an agency fee of 2% of the purchase price of any property acquired by the Company, where no other agency fee was payable. Where a third party agency fee was less than 2% of the purchase price, BMF was entitled to an agency fee of 50% of the difference between 2% of the purchase price and the third party agency fee. BMF also received a share of event fees from an unrelated party Braemar Estates Limited.

Schroder Real Estate Investment Management Limited ("Schroders") acted as the Manager from 13 May 2019 and is also deemed to be a related party. 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, BMF and Ground Rents Income Fund plc were as follows:

	2020 **£**	2019 £
Investment management fee paid to BMF	**–**	208,039
Other amounts paid to BMF	**–**	42,165
Directors fees paid to BMF	**–**	14,000
Investment management fee paid to Schroders	**1,112,582**	132,726
	1,112,582	396,930

No amounts were due from the Company to Schroders at the year end date (2019: £nil).

No amounts were due from the Company to BMF at the year end date (2019: £nil).

22 Provisions for liabilities

In October 2020, NWGR lost its application to vary an order handed down by the High Court, for restoring its investment property to its original condition (see note 24). Subsequently, the Directors have increased the estimate of the cost of remedial works to be met by NWGR by £2.9 million at the year end date.

The provision of £2.9 million reflects tendered costs for the remedial works ordered by the Court of approximately £8.9 million, reduced by amounts that will be payable by leaseholders and recoveries from third parties.

The provision of costs at the year end date reflects the best estimate of the net cost to NWGR of fulfilling the contract, reflecting all estimated costs and recoveries. The Directors have estimated the future recovery of costs from leaseholders and third parties based on legal advice received and obligations under leasehold contracts.

23 Other financial commitments and contingencies

Damages associated with the judgement against NWGR are still to be determined by the High Court at a future date. In line with IAS37 – Provisions, Contingent Liabilities and Contingent Assets, no provision has been made in the Group for the possible obligations of these damages as these are, as yet, not reliably measurable.

24 Events after the year end date

In October 2020 the High Court found against NWGR's application to vary the remedial work to the alternative repair scheme at Beetham Tower, Manchester. An adjusting Post Balance Sheet Event ("PBSE") has been made to provide for the costs associated with the remedial solution (see note 22).

Company Statement of Financial Position

As at 30 September 2020

	Note	2020 £	2019 £
Assets			
Non-current assets			
Investments	5	**1,305,755**	1,340,116
		1,305,755	1,340,116
Current assets			
Trade and other receivables	6	**83,510,034**	84,473,423
Cash and cash equivalents		**2,435,758**	6,136,854
		85,945,792	90,610,277
Total assets		**87,251,547**	91,950,393
Liabilities			
Current liabilities			
Trade and other payables	7	**(2,149,719)**	(834,925)
Total liabilities		**(2,149,719)**	(834,925)
Net assets		**85,101,828**	91,115,468
Equity			
Share capital	9	**48,503,248**	48,503,248
Share premium account	9	**–**	45,884,305
Retained earnings/(accumulated losses)	10	**38,741,661**	(1,958,139)
Loss for the financial year	10	**(2,143,081)**	(1,313,946)
Total equity		**85,101,828**	91,115,468

The Company financial statements on pages 49 to 51 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Robert Malcolm Naish
Director

William Edward John Holland
Director

Ground Rents Income Fund plc
Company registered number: 08041022

2 March 2021

The accompanying notes from pages 52 to 59 form an integral part of the Company financial statements.

Company Statement of Cash Flows

For the year ended 30 September 2020

	Note	2020 £	2019 £
Cash flows from operating activities			
Cash generated from operations	12	**155,521**	3,396,979
Net cash generated from operating activities		**155,521**	3,396,979
Cash flow from investing activities			
Interest received		**13,942**	25,252
Net cash generated from investing activities		**13,942**	25,252
Cash flows from financing activities			
Proceeds from issuance of shares	12	**–**	50
Dividends paid to shareholders	11	**(3,870,559)**	(2,851,988)
Net cash used in financing activities		**(3,870,559)**	(2,851,938)
Net (decrease)/increase in cash and cash equivalents	13	**(3,701,096)**	570,293
Net cash and cash equivalents at the beginning of the year		**6,136,854**	5,566,561
Net cash and cash equivalents at the end of the year		**2,435,758**	6,136,854

The accompanying notes from pages 52 to 59 form an integral part of the Company financial statements.

Company Statement of Changes in Equity

For the year ended 30 September 2020

	Note	Share capital £	Share premium account £	Retained earnings/ (accumulated losses) £	Total equity £
At 1 October 2018		**48,503,198**	**45,884,305**	**893,849**	**95,281,352**
Comprehensive loss					
Loss for the year		–	–	(1,313,946)	(1,313,946)
Total comprehensive loss		–	–	(1,313,946)	(1,313,946)
Transactions with owners					
Issue of share capital	9	50	50	–	100
Share issue costs	9	–	(50)	–	(50)
Dividends paid	11	–	–	(2,851,988)	(2,851,988)
At 30 September 2019		**48,503,248**	**45,884,305**	**(3,272,085)**	**91,115,468**
Comprehensive loss					
Loss for the year		–	–	(2,143,081)	(2,143,081)
Total comprehensive loss		–	–	(2,143,081)	(2,143,081)
Transactions with owners					
Share premium account reduction	9	–	(45,884,305)	45,884,305	–
Dividends paid	11	–	–	(3,870,559)	(3,870,559)
At 30 September 2020		**48,503,248**	**–**	**36,598,580**	**85,101,828**

The accompanying notes from pages 52 to 59 form an integral part of the Company financial statements.

Notes to the Company Financial Statements

For the year ended 30 September 2020

1 General information

The Company is a public company limited by shares, incorporated, registered and domiciled in England in the United Kingdom. The address of its registered office is 1 London Wall Place, London, EC2Y 5AU.

The Company's principal activity during the year was to operate as a holding company for a group operating a property rental and investment business.

2 Accounting policies

The financial statements of the Company are separate to those of the Group.

The accounting policies of the Company are consistent with those of the Group, which can be found in note 1 to the Group financial statements. As with the Group, during the year the Company adopted IFRS 16 – Leases.

The adoption of IFRS 16 has not had a quantitative impact upon the Company's financial statements.

Accounting policies specific to the Company are set out below.

Statement of compliance

The financial statements of the Company have been prepared 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.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The functional and presentational currency is sterling.

Investments in subsidiary companies

Investments in subsidiary companies are carried at cost less any provision for impairment, which is reviewed on an annual basis.

Capital management

The capital managed by the Company consists of cash held across different bank accounts in several banking institutions. The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day-to-day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of individual assets. The Company monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly basis. The Company had £2,435,758 of cash at the year end. The Directors intend to retain an amount for working capital at least equal to the next quarter's dividend payment.

Dividend distributions

Dividend distributions to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Directors.

3 Results for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the financial year. Ground Rents Income Fund plc reported a loss after tax for the financial year of £2,143,081 (2019: loss £1,313,946). Auditors' remuneration and the average number of Directors and their remuneration are set out in notes 3 and 4 of the Group financial statements.

4 Dividends

Details of the Company's dividends paid and proposed are set out in note 18 of the Group financial statements.

5 Investments in subsidiary companies

Cost	Investments in subsidiary companies £
At 1 October 2019	1,340,116
Impairments	(34,361)
At 30 September 2020	1,305,755

During the year, an impairment assessment of the investments held by the Company led to an impairment charge of £34,361 (2019: £324,894) being recorded.

The Directors consider that the carrying value of the investments is supported by their underlying net assets.

Details of the subsidiary undertakings of the Company at 30 September 2020, all of which are wholly owned and included in the financial statements, are given below.

The subsidiaries below are registered at the Company's registered office address, being 1 London Wall Place, London, EC2Y 5AU:

Company	Type of share	Nature of business	Country of incorporation
Admiral Ground Rents Limited	Ordinary £1	Ground rents	UK
Azure House Ground Rents Limited	Ordinary £1	Ground rents	UK
Banbury Ground Rents Limited	Ordinary £1	Ground rents	UK
BH Ground Rents Limited	Ordinary £1	Ground rents	UK
Clapham One Ground Rents Limited	Ordinary £1	Ground rents	UK
DG Ground Rents Limited	Ordinary £1	Ground rents	UK
East Anglia Ground Rents Limited	Ordinary £1	Ground rents	UK
Ebony House Ground Rents Limited	Ordinary £1	Ground rents	UK
Enclave Court Ground Rents Limited	Ordinary £1	Ground rents	UK
Greenhouse Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF Cosec Limited	Ordinary £1	Corporate director	UK
GRIF Student Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF027 Limited	Ordinary £1	Ground rents	UK
GRIF028 Limited	Ordinary £1	Ground rents	UK
GRIF033 Limited	Ordinary £1	Ground rents	UK
GRIF034 Limited	Ordinary £1	Ground rents	UK
GRIF036 Limited	Ordinary £1	Ground rents	UK
GRIF037 Limited	Ordinary £1	Ground rents	UK
GRIF038 Limited	Ordinary £1	Ground rents	UK
GRIF039 Limited	Ordinary £1	Ground rents	UK
GRIF040 Limited	Ordinary £1	Ground rents	UK
GRIF041 Limited	Ordinary £1	Ground rents	UK
GRIF042 Limited	Ordinary £1	Ground rents	UK
GRIF043 Limited	Ordinary £1	Ground rents	UK
GRIF044 Limited	Ordinary £1	Ground rents	UK
GRIF045 Limited	Ordinary £1	Ground rents	UK
GRIF046 Limited	Ordinary £1	Ground rents	UK

Notes to the Company Financial Statements continued

For the year ended 30 September 2020

5 Investments in subsidiary companies continued

Company	Type of share	Nature of business	Country of incorporation
GRIF047 Limited	Ordinary £1	Ground rents	UK
GRIF048 Limited	Ordinary £1	Ground rents	UK
GRIF049 Limited	Ordinary £1	Ground rents	UK
GRIF051 Limited	Ordinary £1	Ground rents	UK
GRIF052 Limited	Ordinary £1	Ground rents	UK
GRIF053 Limited	Ordinary £1	Ground rents	UK
Halcyon Wharf Ground Rents Limited	Ordinary £1	Ground rents	UK
Hill Ground Rents Limited	Ordinary £1	Ground rents	UK
Invest Ground Rents Limited	Ordinary £1	Ground rents	UK
Masshouse Block HI Limited	Ordinary £1	Ground rents	UK
Masshouse Residential Block HI Limited	Ordinary £1	Ground rents	UK
Metropolitan Ground Rents Limited	Ordinary £1	Ground rents	UK
Nikal Humber Quay Residential Limited	Ordinary £1	Ground rents	UK
Northwest Houses Ground Rents Limited	Ordinary £1	Ground rents	UK
OPW Ground Rents Limited	Ordinary £1	Ground rents	UK
The Manchester Ground Rent Company Limited	Ordinary £1	Ground rents	UK
Trinity Land & Investments No.2 Limited	Ordinary £1	Ground rents	UK
Wiltshire Ground Rents Limited	Ordinary £1	Ground rents	UK
XQ7 Ground Rents Limited	Ordinary £1	Ground rents	UK

The subsidiary below is registered at the following address: Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT:

Company	Type of share	Nature of business	Country of incorporation
North West Ground Rents Limited	Ordinary £1	Ground rents	Guernsey

6 Trade and other receivables

	2020 £	2019 £
Amounts owed by subsidiary undertakings	**82,405,907**	84,384,145
Other taxes and social security costs	**–**	12,158
Other receivables	**1,045,134**	28,938
Prepayments and accrued income	**58,993**	48,182
	83,510,034	84,473,423

Amounts owed by subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

An impairment assessment of the amounts owed by subsidiaries to the Company led to an impairment charge of £0.8 million (2019: £4.7 million) being recorded, which was determined by reference to the net assets of subsidiaries. The net assets are driven by the investment property valuations and sensitivities in respect of property valuations. Level 3 unobservable input disclosures in connection with the investment property valuations are provided in note 8 to the Group financial statements.

	2020 £	2019 £
Amounts owed by subsidiary undertakings	**87,949,196**	89,151,983
Impairments	**(5,543,289)**	(4,767,838)
	82,405,907	84,384,145

7 Trade and other payables

	2020 £	2019 £
Amounts owed to subsidiary undertakings	1,054,127	–
Trade payables	46,006	11,436
Other taxes and social security costs	47,337	–
Other payables	45,992	123,005
Accruals and deferred income	956,257	700,484
	2,149,719	834,925

Amounts owed to subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

8 Financial instruments

The Company's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations, which include amounts owed to and by subsidiary undertakings.

Financial assets carried at amortised cost
The book value and fair value of the Company's financial assets, were as follows:

	2020		2019	
	Book value £	**Fair value £**	Book value £	Fair value £
Amounts owed by subsidiary undertakings	**82,405,907**	**82,405,907**	84,384,145	84,384,145
Other taxes and social security costs	**–**	**–**	12,158	12,158
Other receivables	**211,948**	**211,948**	28,938	28,938
Prepayments and accrued income	**58,993**	**58,993**	48,182	48,182
Cash at bank and in hand	**2,435,758**	**2,435,758**	6,136,854	6,136,854

As at 30 September 2020 no trade or other receivables (2019: £nil) were impaired or provided for.

Financial liabilities carried at amortised cost
The book value and fair value of the Company's financial liabilities, were as follows:

	2020		2019	
	Book value £	**Fair value £**	Book value £	Fair value £
Amounts owed to subsidiary undertakings	**1,054,127**	**1,054,127**	–	–
Trade payables	**46,006**	**46,006**	11,436	11,436
Other taxes and social security costs	**47,337**	**47,337**	–	–
Other payables and accruals	**1,002,249**	**1,002,249**	823,489	823,489

Financial risk management
The financial risk management objectives and policies applied by the Company are in line with those of the Group as disclosed in note 12 to the Group financial statements.

Notes to the Company Financial Statements continued

For the year ended 30 September 2020

9 Share capital and share premium account

The movements in share capital and share premium during the year were as follows:

	Number of shares	Share capital	Share premium account
		£	£
At 1 October 2018	97,006,397	48,503,198	45,884,305
Shares issued	100	50	50
Expenses of issue	–	–	(50)
At 30 September 2019	97,006,497	48,503,248	45,884,305
Conversion of share premium into distributable reserves	–	–	(45,884,305)
Dividends paid	–	–	–
At 30 September 2020	**97,006,497**	**48,503,248**	**–**

The total number of ordinary shares, issued and fully paid at 30 September 2020 was 97,006,497 with a par value of £0.50 per share. Details of the shares issued are given in notes 15 and 16 of the consolidated financial statements.

Following the approval by shareholders and warrantholders at a General Meeting in November 2019, the Company cancelled its share premium account in order to create distributable reserves to better facilitate the payment of future dividends.

10 Retained earnings

	2020 £	2019 £
At the beginning of the year	**(3,272,085)**	893,849
Conversion of share premium into distributable reserves	**45,884,305**	–
Dividends paid in the year (note 18 – consolidated financial statements)	**(3,870,559)**	(2,851,988)
Retained earnings/(accumulated losses)	**38,741,661**	(1,958,139)
Loss for the financial year	**(2,143,081)**	(1,313,946)
At the end of the year	**36,598,580**	(3,272,085)

11 Reconciliation of movements in total equity

	2020 £	2019 £
At the beginning of the year	**91,115,468**	95,281,352
Dividends paid in the year (note 18 – consolidated financial statements)	**(3,870,559)**	(2,851,988)
Loss for the financial year	**(2,143,081)**	(1,313,946)
Shares issued	**–**	50
At the end of the year	**85,101,828**	91,115,468

12 Cash generated from operations

Reconciliation of loss before income tax to net cash inflow from operating activities

	2020 £	2019 £
Loss before tax	**(2,143,081)**	(1,313,946)
Adjustments for:		
Impairment of investment in subsidiary undertakings	**34,361**	324,894
Net finance income	**(13,942)**	(25,252)
Operating cash flows before movements in working capital	**(2,122,662)**	(1,014,304)
Movements in working capital:		
(Increase)/decrease in trade and other receivables	**(1,014,850)**	179,753
Decrease in amounts owed by subsidiary undertakings	**1,978,238**	3,786,295
Increase in amounts owed to subsidiary undertakings	**1,054,127**	–
Increase in trade and other payables	**260,668**	445,235
Net cash generated from operations	**155,521**	3,396,979

Proceeds of share issue

The proceeds from issue of shares can be analysed as follows:

	2020 £	2019 £
Shares issued on exercise of warrants on 13 September 2019	**–**	100
Share issue costs associated with issue of ordinary shares	**–**	(50)
	–	50

13 Analysis of changes in net cash

	At 1 October 2019 £	Cash flows £	Non-cash changes £	At 30 September 2020 £
Cash at bank and in hand	6,136,854	(3,701,096)	–	**2,435,758**
Total	6,136,854	(3,701,096)	–	**2,435,758**

Notes to the Company Financial Statements continued

For the year ended 30 September 2020

14 Related party transactions

Transactions between the Company and its subsidiaries which are related parties, are eliminated on consolidation. The Company's individual financial statements include the amounts attributable to subsidiaries. All transactions with fellow group companies are carried out at arm's length and all outstanding balances are to be settled in cash. All amounts due to or from subsidiary companies are interest free and repayable on demand. These amounts are disclosed in aggregate in the relevant Company financial statements and in detail in the following tables:

	Amounts owed by related parties		Amounts owed to related parties	
Company	**2020 £**	2019 £	**2020 £**	2019 £
Admiral Ground Rents Limited	**5,742,276**	6,058,890	**–**	–
Azure House Ground Rents Limited	**101,608**	106,178	**–**	–
Banbury Ground Rents Limited	**121,369**	130,499	**–**	–
BH Ground Rents Limited	**1,380,830**	1,425,128	**–**	–
Clapham One Ground Rents Limited	**2,791,214**	2,897,576	**–**	–
D G Ground Rents Limited	**1,557,674**	1,648,515	**–**	–
East Anglia Ground Rents Limited	**464,388**	493,408	**–**	–
Ebony House Ground Rents Limited	**175,889**	183,408	**–**	–
Enclave Court Ground Rents Limited	**124,425**	132,486	**–**	–
Greenhouse Ground Rents Limited	**560,333**	579,413	**–**	–
GRIF Student Ground Rents Limited	**919,672**	976,026	**–**	–
GRIF033 Limited	**654,816**	691,497	**–**	–
GRIF038 Limited	**41,422**	104,835	**–**	–
GRIF039 Limited	**740,417**	785,712	**–**	–
GRIF040 Limited	**14,885,488**	13,837,803	**–**	–
GRIF041 Limited	**2,756,423**	2,892,455	**–**	–
GRIF042 Limited	**636,612**	681,389	**–**	–
GRIF043 Limited	**985,909**	1,030,697	**–**	–
GRIF044 Limited	**1,496,342**	1,544,162	**–**	–
GRIF045 Limited	**944,605**	1,034,390	**–**	–
GRIF046 Limited	**2,238,366**	2,321,754	**–**	–
GRIF047 Limited	**142,005**	150,282	**–**	–
GRIF048 Limited	**–**	–	**1,054,127**	529,765
GRIF051 Limited	**17,991,643**	18,564,080	**–**	–
GRIF052 Limited	**1,745,641**	1,818,356	**–**	–
Halcyon Wharf Ground Rents Limited	**327,134**	343,264	**–**	–
Hill Ground Rents Limited	**4,848,706**	5,121,942	**–**	–
Invest Ground Rents Limited	**221,009**	233,777	**–**	–
Masshouse Block HI Limited	**2,901,501**	2,935,917	**–**	–
Masshouse Residential Block HI Limited	**400,861**	15,637	**–**	–
Metropolitan Ground Rents Limited	**2,755,410**	2,949,178	**–**	–
Nikal Humber Quay Residential Limited	**198,916**	–	**–**	11,455
Northwest Houses Ground Rents Limited	**987,529**	1,058,356	**–**	–
OPW Ground Rents Limited	**3,912,524**	4,123,021	**–**	–
The Manchester Ground Rent Company Limited	**3,896,587**	4,093,358	**–**	–
Trinity Land & Investments No.2 Limited	**2,393,746**	2,525,652	**–**	–
Wiltshire Ground Rents Limited	**2,426,759**	2,469,932	**–**	–
XQ7 Ground Rents Limited	**621,459**	654,734	**–**	–

All the above subsidiaries are registered at the Company's registered office, being 1 London Wall Place, London, EC2Y 5AU.

14 Related party transactions continued

	Amounts owed by related parties		Amounts owed to related parties	
Company	**2020 £**	2019 £	**2020 £**	2019 £
Midlands Ground Rents Limited	**–**	864,533	**–**	–
North West Ground Rents Limited	**2,857,690**	1,961,966	**–**	–

The above subsidiaries are registered at the same Guernsey address, being Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT.

15 Events after the year end date

In October 2020 the High Court found against NWGR's application to vary the remedial work to the alternative repair scheme at Beetham Tower, Manchester. An adjusting Post Balance Sheet Event ("PBSE") has been made to provide for the costs associated with the remedial solution (see note 22 of the Group financial statements).

Annual General Meeting – Recommendations

The Annual General Meeting ("AGM") of Ground Rents Income plc (the "Company") will be held on Wednesday, 31 March 2021 at 10.00 am. The formal Notice of Meeting is set out on page 61.

The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

Covid-19 and the AGM

In light of the rapidly evolving situation and government guidance regarding the outbreak of Covid-19, the Board has taken the decision to alter the format of the Company's AGM. The safety and security of our shareholders, service providers, officers, and guests is of paramount importance to us. **Shareholders are therefore asked not to attend the AGM in person but instead to vote by proxy, appointing the chair of the meeting as their proxy.**

Ordinary business

Resolutions 1 to 8 are all ordinary resolutions

Resolution 1 is a required resolution. Resolutions 2 and 3 concern the Directors' Remuneration Policy and Remuneration Report, on pages 24 and 25. Resolutions 4 to 6 invite shareholders to elect Barry Gilbertson, and re-elect each of the other Directors for another year, with the exception of Malcolm Naish, who will retire at the AGM (their biographies are set out on pages 15 and 16). Resolutions 7 and 8 concern the re-appointment and remuneration of the Company's auditor.

Special business

Resolution 9 – approval of the Company's dividend policy (ordinary resolution)

In line with corporate governance best practice, the Board is putting the Company's dividend policy to shareholders for approval. No change to the dividend policy is proposed at this time.

Resolution 10 – approval of an increased Director fee cap

The £100,000 fee cap means that there can be limited overlap between the date of appointment and retirement of directors. This has the potential to disrupt Board succession planning and so the Board is proposing that this be increased to £150,000.

Resolution 11 – Directors' authority to allot shares (ordinary resolution) and resolution 12 – power to disapply pre-emption rights (special resolution)

The Directors are seeking authority to allot a limited number of unissued ordinary shares for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures.

Appropriate resolutions will be proposed at the forthcoming AGM and are set out in full in the Notice of AGM. An ordinary resolution will be proposed to authorise the Directors to allot shares up to a maximum aggregate nominal amount of £4,850,324 (being 10% of the issued share capital (excluding any shares held in treasury) as at the date of the Notice of the AGM). In accordance with the pre-emption group guidelines, two special resolutions will also be proposed to give the Directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £4,850,324 (being 10% of the Company's issued share capital (excluding any shares held in treasury) as at 2 March 2021). This authority includes shares that the Company sells or transfers that have been held in treasury. The Board has established guidelines for treasury shares and will only reissue shares held in treasury at a price equal to or greater than the Company's net asset value (inclusive of current year income) plus any applicable costs.

The Directors do not intend to allot shares pursuant to these authorities other than to take advantage of opportunities in the market as they arise and only if they believe it to be advantageous to the Company's existing shareholders to do so and when it would not result in any dilution of NAV per share.

If approved, each of these authorities will expire at the conclusion of the AGM in 2022 unless renewed, varied or revoked earlier.

Resolution 13: Authority to make market purchases of the Company's own shares (special resolution)

At the AGM held on 23 March 2020, the Company was granted authority to make market purchases of up to 14,541,273 ordinary shares of 50p each for cancellation or holding in treasury. No shares have been bought back into treasury under this authority and the Company therefore has remaining authority to purchase up to 14,541,273 ordinary shares. This authority will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to net asset value and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue as at the date of the Notice of the AGM. The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in treasury for potential reissue. If renewed, the authority to be given at the 2021 AGM will lapse at the conclusion of the AGM in 2022 unless renewed, varied or revoked earlier.

Recommendations

The Board considers that the resolutions relating to the above items of business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the resolutions to be proposed at the forthcoming AGM.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Ground Rents Income Fund plc will be held at 1 London Wall Place, London, EC2Y 5AU on Wednesday, 31 March 2021 at 10.00 am to consider the following resolutions of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 to 13 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited financial statements for the year ended 30 September 2020.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30 September 2020.
4. To elect Barry Gilbertson as a Director of the Company.
5. To re-elect Paul Craig as a Director of the Company.
6. To re-elect Bill Holland as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers LLP as auditor to the Company.
8. To authorise the Directors to determine the remuneration of PricewaterhouseCoopers LLP as auditor to the Company.
9. To approve the Company's dividend policy, as set out on page 17 of the annual report and financial statements for the year ended 30 September 2020.
10. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:
"THAT the fee cap in Article 90 of the Articles of Association of the Company be increased from £100,000 to £150,000."
11. To consider, and if thought fit, pass the following resolution as an ordinary resolution:
"THAT the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £4,850,324 (being 10% of the issued ordinary share capital at the date of this Notice) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company, but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Board may allot relevant securities in pursuance of that offer or agreement."
12. To consider and, if thought fit, to pass the following resolution as a special resolution:
"THAT, subject to the passing of resolution 11 set out above, the directors be and are hereby empowered, pursuant to Section 571 of the Act, to allot equity securities (including any shares held in treasury) (as defined in section 560(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said resolution 11 and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £4,850,324 (representing 10% of the aggregate nominal amount of the share capital in issue at the date of this Notice); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
13. To consider and, if thought fit, to pass the following resolution as a special resolution:
"THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 50p each in the capital of the Company ("Shares") at whatever discount the prevailing market price represents to the prevailing net asset value per Share provided that:
    (a) the maximum number of Shares which may be purchased is 14,541,273, representing 14.99% of the Company's issued ordinary share capital as at the date of this Notice;
    (b) the maximum price (exclusive of expenses) which may be paid for a Share shall not exceed the higher of;
        (i) 105% of the average of the middle market quotations for the Shares as taken from the International Stock Exchange Official List for the five business days preceding the date of purchase; and
        (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;
    (c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 50p, being the nominal value per Share;
    (d) this authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2022 (unless previously renewed, varied or revoked by the Company prior to such date);
    (e) the Company may make a contract to purchase Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and
    (f) any Shares so purchased will be cancelled or held in treasury."

By order of the Board

For and on behalf of
Schroder Investment Management Limited
Registered Number: 08041022
2 March 2021

Registered Office:
1 London Wall Place
London, EC2Y 5AU

Explanatory Notes to the Notice of Annual General Meeting

1. Ordinary shareholders are entitled to attend and vote at the meeting and to appoint one or more proxies, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting.

   A proxy form is attached. If you wish to appoint a person other than the Chair as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

   Additional proxy forms can be obtained by contacting the Company's Registrars, Link Market Services Limited on 0371 664 0391, or you may photocopy the attached proxy form. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

   On a vote by show of hands, every ordinary shareholder who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every ordinary shareholder who is present in person or by way of a proxy has one vote for every share of which he/she is a holder.

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution.

   However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Link Market Services Limited at PXS, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 working hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.signalshares.com by following the on-screen instructions.

   Please note that to be valid, your proxy instructions must be received by the Company's registrar no later than 10.00 am on Monday, 29 March 2021. If you have any difficulties with online voting, you should contact the shareholder helpline on 0371 664 0391. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

   If an ordinary shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

   Shareholders may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purposes other than expressly stated.

   Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the Annual General Meeting.

2. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of ordinary shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by ordinary shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of members of the Company at close of business on Monday, 29 March 2021, or close of business two working days prior to the date of an adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after close of business on Monday, 29 March 2021 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments.

5. Copies of the articles of association, terms of appointment of the non-executive Directors and a statement of all transactions of each Director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the Directors has a contract of service with the Company.

6. The biographies of the Directors offering themselves for election and re-election are set out on pages 15 and 16 of the Company's annual report and financial statements for the year ended 30 September 2020.

7. As at 2 March 2021, 97,006,497 ordinary shares of 50 pence each were in issue (no shares were held in treasury). Therefore the total number of voting rights of the Company as at 2 March 2021 was 97,006,497.

8. A copy of this Notice of Meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available from the webpages dedicated to the Company: www.groundrentsincomefund.com.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Ground Rents Income Fund plc
1 London Wall Place, London, EC2Y 5AU, United Kingdom
Tel: +44 (0)20 7658 6000

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).

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.

Initial yield is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.

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 on an asset or within a company or 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.

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

NAV total return is calculated taking into account the timing of dividends, share buybacks and issuance.

Net rental income is the rental income receivable in the year after payment of ground rents and net property outgoings. This excludes rental income for rent free periods currently in operation and service charge income.

RCF is a Revolving Credit Facility.

TISE is The International Stock Exchange, headquartered in Guernsey.

Shareholder Information

Web pages and share price information

The Company has dedicated web pages, which may be found at http://www.groundrentsincomefund.com. The web pages have been designed to be utilised as the Company's primary method of electronic communication with shareholders. They contain details of the Company's ordinary share price and copies of Report and financial statements and other documents published by the Company as well as information on the Directors, terms of reference of Committees and other governance arrangements. In addition, the web pages contain links to announcements made by the Company to the market.

Share price information may be found in the Financial Times and on the Company's web pages.

Individual Savings Account ("ISA") status

The Company's shares are eligible for stocks and shares ISAs.

Non-mainstream pooled investments status

The Company currently conducts its affairs so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the UK Financial Conduct Authority's ("FCA's") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Financial calendar (2021)

First interim dividend paid	February
Annual general meeting	March
Second interim dividend paid	May
Half-year results announced	June
Third interim dividend paid	August
Financial year end	30 September
Fourth interim dividend paid	November
Annual results announced	December

Alternative Investment Fund Managers Directive ("AIFMD") Disclosures

The AIFMD, as transposed into the FCA Handbook in the UK, requires that certain pre-investment information be made available to investors in Alternative Investment Funds (such as the Company) and also that certain regular and periodic disclosures are made. This information and these disclosures may be found either below, elsewhere in this Annual Report, or in the Company's AIFMD information disclosure document published on the Company's web pages.

Remuneration disclosures

The information required under the AIFMD to be made available to investors in the Company on request in respect of remuneration paid by the AIFM to its staff, and, where relevant, carried interest paid by the Company, can be found on the Company's web pages.

Publication of Key Information Document ("KID") by the AIFM

Pursuant to the Packaged Retail and Insurance-Based Investment Products ("PRIIPs") Regulation, the Manager, as the Company's AIFM, is required to publish a short KID on the Company. KIDs are designed to provide certain prescribed information to retail investors, including details of potential returns under different performance scenarios and a risk/reward indicator. The Company's KID is available on its web pages.

Corporate Information

Directors
Robert Malcolm Naish (Malcolm Naish)
Paul Anthony Craig (Paul Craig)
William Edward John Holland (Bill Holland)
Barry Gordon Gilbertson (Barry Gilbertson)

Manager
Schroder Real Estate Investment Management Limited
1 London Wall Place
London
EC2Y 5AU

Registered Office
1 London Wall Place
London
EC2Y 5AU

Depositary
INDOS Financial Limited
St Clements House
27 Clements Lane
London
EC4N 7AE

Company Secretary
Schroder Investment Management Limited
1 London Wall Place
London
EC2Y 5AU

Solicitors to the Company
CMS Cameron McKenna Nabarro Olswang LLP
1 The Avenue
Manchester
M3 3AP

Auditors
PricewaterhouseCoopers LLP
No 1 Spinningfields
Hardman Square
Manchester
M3 3AB

Property Valuers
Savills Advisory Services Limited
33 Margaret Street
London
W1G 0JD

Tax Advisers
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Corporate Broker
N+1 Singer Capital Markets Limited
One Bartholomew Lane
London
EC2N 2AX

TISE Listing Sponsor
Appleby Securities (Channel Islands) Limited
PO Box 207
13-14 Esplanade
St Helier
Jersey
JE1 1BD

Registrar
Link Market Services Limited
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Dealing codes
Ordinary shares
ISIN: GB00B715WG26
SEDOL: B8K0LM4
Ticker (LSE SETSQX): GRIO
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)
213800SL3SN8P6XCLM37

Schroders

Schroder Real Estate Investment Management Limited
1 London Wall Place, London, EC2Y 5AU, United Kingdom
Tel: +44 (0)20 7658 6000

schroders.com

@schroders

MIX
Paper from responsible sources
FSC® C005739
FSC
www.fsc.org