Ground Rents Income Fund plc

Half Year Report and Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2021

About Us

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

Company summary

The Company is a closed-ended real estate investment trust incorporated in England on 23 April 2012. The Company has been listed on The International Stock Exchange ("TISE") and traded on the SETSqx platform of the Stock Exchange since 13 August 2012. At 31 March 2021 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"), 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, in May 2019, the Company signed the Government's 'Public Pledge for Leaseholders', which was an important step towards positive change and sensible, well considered reform.

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

The Leasehold Reform (Ground Rent) Bill, which is expected to be enacted in 2021, is the first step in implementing primary legislation and introduces a requirement that ground rents in new residential long leases have no financial value.

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

In July 2020, the Government published the draft Building Safety Bill ("BSB"), which aims to improve safety in high rise buildings. The BSB 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. The 'Golden Thread' is an accurate, up-to-date digital record of all data required to maintain and operate a built asset. This includes, how the building was designed, built and its ongoing maintenance to date. The Bill includes amendments to Landlord and Tenant legislation to introduce a new Building Safety Charge to ensure more efficient and transparent recovery of costs incurred when introducing fire safety measures.

Further detail on both leasehold and building safety reform is found within the Investment Manager's Report. The Investment 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 fault 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 342 years
- 47% of the portfolio ground rent income is due to be reviewed over the next five years and in aggregate 72% to be formally reviewed within the next ten years.

Assuming future RPI inflation of 2.6% per annum, ground rent income should increase approximately 16% over the next five years or an annualised figure of 3.0%; slightly ahead of the RPI inflation assumption.

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 (shown below on map)

	Property	Valuation at 31 March 2021 (£million)	% of portfolio	Property type
1	Lawrence Street, York	8.3	6.7	Student
2	Masshouse Plaza, Birmingham	3.7	3.0	Residential
3	One Park West, Liverpool	3.5	2.8	Residential
4	The Gateway, Leeds	3.5	2.8	Residential
5	Wiltshire Leisure Village, Royal Wootton Bassett	3.4	2.8	Residential
6	Rathbone Market, London	3.2	2.6	Residential
7	First Street, Manchester	2.9	2.4	Student
8	Ladywell Point, Manchester	2.6	2.1	Residential
9	Richmond House, Southampton	2.5	2.0	Student
10	Bezier Apartments, London	1.9	1.5	Residential
Total		35.5	28.7	

Number of investment units

19,000+

Total investment property value

£123.6 million

Percentage of the portfolio value comprised of top ten properties

28.7%

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

46.8%

Chairman's Statement

Overview

This is my first interim results as Chairman of Ground Rents Income Fund plc (the "Company"), covering the six-month period to 31 March 2021. During the period, the Company's net asset value ("NAV") fell by 1.1% to £101.4 million which, together with dividends paid of £1.92 million or 1.98 pence per share ("pps"), resulted in a NAV total return of 0.7%.

Whilst the wider economy and traditional real estate sectors have demonstrated volatility as a result of the Covid-19 pandemic, the value of the Company's underlying portfolio has remained stable within a functioning investment market. Importantly, our ground rent income collection rates are comparable with our pre-pandemic levels. This performance illustrates the resilience of the portfolio's underlying cashflows, but associated ancillary income has reduced and resulted in lower dividend coverage.

The financial performance of the Company over the period continued to be adversely impacted by the complex and long running litigation at Beetham Tower in Manchester. During the period, litigation and related fees totalling £0.2 million were incurred. In addition, the NAV at the period end continued to be negatively impacted by an accounting adjustment which reflects a net cost estimate to deliver the remedial works of £2.9 million. Concluding the litigation at Beetham Tower is a strategic priority and the Board and Investment Manager are focused on delivering a solution as soon as practicably possible which we expect will allow the negative NAV adjustment of £2.9 million to be reversed, although approximately £0.3 million of further sale or liquidation costs are expected to be incurred.

Building safety reform

It has been a period of intense operational activity supporting the day-to-day requirements of our leaseholders. Emerging and complex building safety issues have dramatically increased the Board and Investment Manager's workload and required specialist third party advice.

The Investment Manager is proactively dealing with all stakeholders on remediation projects and has taken steps to protect, as far as is reasonably practicable, leaseholders from the financial implications of the building safety crisis, by making qualifying applications to both the Government's Building Safety Fund and the Waking Watch Relief Fund. We will release more information on this critically important work as further progress is made.

During the period, significantly enhanced insurance requirements have led to an accelerated collation of building design information ahead of the introduction of the Building Safety Bill (as described more fully on the inside front cover). This process will support our desired delivery of best-in-class residential asset management, whilst contributing to satisfying the increasingly demanding due diligence requirements of ground rent investors.

Leasehold reform

The Government's leasehold reforms announced in January 2021 may well have significant consequences over time for both leaseholders and investors by, inter alia, facilitating a one-time transfer of wealth from freeholders with legitimate property interests, to leaseholders. The proposals may also have the unintended consequence of reducing housing supply, and creating a two-tier market for home owners between properties subject to ground rents and those not.

The Investment Manager continues to engage with Government and relevant agencies to ensure that all relevant property stakeholders are carefully considered in any proposed reform, 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. We are working, with legal advice, to determine what steps we may need to take to protect our shareholders' interests.

In June 2019, the Competition and Markets Authority ("CMA") launched an investigation into potential breaches of consumer law in the leasehold housing market. In September 2020, the CMA confirmed that, whilst it was taking action against some of the country's biggest residential housing developers, no action has been taken against the Company. In July 2021, the CMA announced that it had agreed an undertaking with a large institutional owner of ground rents that included removing onerous terms and compensation to leaseholders. Approximately 3.1% of the Company's portfolio by ground rent income contains terms that may generally be considered onerous, that is where residential ground rents double more frequently than every 20 years. Since 2017, affected leaseholders have been offered alternative terms, with 34% take-up. We will continue to closely monitor the CMA's investigations and announcements over the coming period.

Vision and strategy

The Board recently determined that our vision is to support and oversee a high quality team diversifying and de-risking, where needed, the Company's assets into a more sustainable and profitable portfolio. We are actively evaluating a range of options to enhance shareholder returns that, alongside final resolution of the Beetham Tower litigation, we believe should address the current share price rating. The Company's key investment objective remains to provide secure, long-term, inflation-protected returns through investment in long-dated UK residential and commercial ground rents.

The Board is acutely aware of the Continuation Vote which is to take place by August 2023. The Board and Investment Manager are also considering whether the strategy might be expanded to include other complementary asset types offering the same defensive, inflation-protected cashflows. Any significant changes to the Company's strategy will be undertaken in consultation with shareholders.

Dividends

During the period, the Company paid two dividends totalling £1.92 million or 1.98 pps. Principally due to the impact of Beetham Tower litigation and expenses, dividends were not covered by distributable earnings which totalled £1.28 million, falling short by some £640,000. Excluding non-recurring costs, the dividend was 79% covered by recurring distributable earnings.

Whilst Beetham Tower is the key reason for reduced earnings, responding to the headwinds arising from leasehold and building safety reform has increased the costs associated with owning and managing a large portfolio of ground rent assets.

Based on these considerations, the Board has taken the decision to reduce the annualised dividend by 24% to 3.0 pps per annum. At this level we expect the dividend to be fully covered by recurring earnings during the full year ending September 2022. This takes into account a provision for costs in relation to building safety reform and increased external management costs. At this level we would expect to adopt a progressive dividend policy as rent reviews increase ground rent income. The Company's ground rent income currently totals £4.93 million per annum, with 47% of ground rent income due to be formally reviewed in the next five years, and in aggregate 72% to be formally reviewed within the next ten years.

Share buybacks

The Company's share price discount to NAV per share has persisted since the onset of leasehold reform in 2017. The Board monitored the discount throughout the year and received input from the Company's broker and the Investment Manager on a frequent basis. The Board believes that the best way to close the discount on a long-term basis is by increasing demand for the Company's shares through effectively implementing the Company's investment strategy.

At the Company's last AGM in March 2021, the Company was given the authority to purchase up to 14.99% of its issued share capital. Following the release of these interim results, the Board and Investment Manager believe that investment in the Company's shares at the prevailing price and discount to NAV offers attractive value for shareholders. The Company will therefore commence an open market share buyback programme with immediate effect as we look to deliver shareholder value and narrow the discount to NAV.

Board composition

I joined the Board in February this year, and succeeded Malcolm Naish as Chairman at the March 2021 Annual General Meeting. On behalf of the whole Board, the Investment Manager, and our shareholders, I would like to thank Malcolm for his sterling commitment and stewardship of the Company since launch in 2012.

The Board continues to review its own composition against best practice and the need for orderly succession. The Board is currently well advanced in a recruitment process to identify a new director to replace Paul Craig, who has served as a director of the Company for nine years and will be standing down in September this year.

Outlook

The Company continues to operate in a complex regulatory environment with a high level of political and media scrutiny following the Grenfell Tower tragedy, and the Government's leasehold reform programme, which, disappointingly, still lacks areas of fundamental clarity. In spite of these uncertainties, the Board and Investment Manager are highly focussed on demonstrating operational excellence in these areas, whilst also ensuring shareholder interests are protected as part of building safety and leasehold reform proposals.

The portfolio continues to offer attractive characteristics due to its long-dated and secure underlying cashflows, a high yield premium compared with comparable fixed income assets and embedded inflation hedging. Whilst the final leasehold reform legislation could adversely impact values, it could equally have a more neutral impact, and a possible Government imposed ban on future new ground rents could potentially increase demand for a finite pool of assets.

Despite these prevailing headwinds and the continuing challenges presented by Beetham Tower which we must resolve, progress has been made during the period responding to the changing regulatory landscape and supporting our leaseholders.

It is true that some elements of regulation and the market are outside of our control, and the Board has agreed clear objectives with the Investment Manager to explore all options for delivering optimum value for shareholders, leading up to the Continuation Vote.

As your new Chairman, I expect to report further progress during the rest of this financial year and beyond.

Barry Gilbertson
Chairman

28 July 2021

Investment Manager's Report

Protecting shareholders, and addressing building safety and leasehold reform headwinds

Performance

The Group's Net Asset Value ("NAV") was £101.4 million or 104.5 pence per share ("pps") as at 31 March 2021, which compares with £102.6 million or 105.7 pps at 30 September 2020. This reflected a NAV decline of 1.2 pps or -1.1%, and a NAV total return, including total dividends paid over the period of £1.92 million, of 0.7%. The movement in NAV is set out in the table below:

	£ million	Pence per share
NAV as at 30 September 2020	102.6	105.7
Total distributable earnings (earnings before revaluation)	1.2	1.3
Revaluation loss	-0.5	-0.5
Dividends paid	-1.9	-2.0
NAV as at 31 March 2021	**101.4**	**104.5**

The independent portfolio valuation as at 31 March 2021 of £123.6 million represented a small decrease in value of £600,000 compared to 30 September 2020. The NAV was impacted by the uncovered dividend, and by costs relating to Beetham Tower totalling £230,000. Dividend cover excluding non-recurring costs was 79%.

Income collection

As a result of Covid-19 and the potential financial impact on our leaseholders, we have implemented more flexible revenue collection processes including, for example, extending the length and increasing the flexibility of the arrears process. Despite these updated processes, and the restrictions of the Coronavirus Act 2020, ground rent collection rates have remained robust. Ancillary income has, however, been negatively impacted by lower insurance commissions and lower consent fees as a result of the subdued apartment transactional market. As a result of these factors, ancillary income in the period was £383,712 compared to £704,555 in the six months to 31 March 2020. Further background to current insurance market conditions is set out below.

Market overview

The residential ground rent investment market continues to see a steady number of transactions taking place at stable pricing, but transaction volumes have remained low since 2018 due to leasehold reform uncertainty. Market activity in the period was punctuated by the January 2021 leasehold reform announcement and the implementation of enhanced building safety legislation, however, several participants continue to transact, funded by annuity providers and pension schemes.

The market has polarised into institutional quality assets, which are mainly well-constructed, free of building safety concerns and provide index-linked ground rent income, and the rest. Transactions have continued to occur at both ends of the market, but investors are more cautious during the due diligence process, with a particular focus on building safety and the affordability of ground rents versus the underlying property value.

The depth of the investment market remains thin as most institutional investors await the outcome of leasehold reform. Liquidity is expected to remain limited until there is greater clarity from Government about its proposed enfranchisement premium calculation.

Commercial ground rents continue to benefit from operator and investor demand. Owners of operational real estate are attracted by the opportunity to release value from their portfolio, reduce their cost of capital and increase balance sheet flexibility, whilst investors are attracted to the long-term, low volatility, heavily collateralised index-linked income.

Given the uncertainty surrounding residential ground rents and shareholder feedback in relation to the size of the Company, we are exploring complementary asset classes. Any changes to the Company's strategy will be undertaken in consultation with shareholders.

Inflation & Retail Price Index reform

The success of the UK's vaccine rollout has contributed to the easing of lockdown restrictions and boosted consumer confidence, both of which are likely to lead to a rebound in spending. The Bank of England ("BoE") expects the economy to expand by more than 7% this year with extra Government spending and the extension of the furlough scheme to September 2021 helping to limit job losses.

Inflation as measured by the Retail Prices Index ("RPI") rose from 1.5% in March to 2.9% in April, on the back of rising energy costs and the expiry of emergency cuts to VAT, and continued to rise further in the following months to 3.9% in June.

Inflation over the BoE's Consumer Prices Index target of 2% is likely to be tolerated during the pandemic recovery, which should translate positively into the Company's income performance over the medium term. 47% of the Company's income is due to be reviewed in the next five years and 72% in the next ten, meaning the Company is well positioned to capture this forecast inflation.

In 2019, the Government pledged to bring RPI in line with the Consumer Prices Index including owner-occupiers' housing costs, a measure called CPIH. Following a joint consultation with the UK Statistics Authority to which we responded in detail, the Government has announced that RPI will be aligned with CPIH no earlier than February 2030.

Leasehold & building safety reform

Leasehold Reform

The Queen's Speech in May 2021 began the process of crystallising leasehold reform following the Government's January 2021 reform announcement.

As clarified previously, the proposed abolition of "Marriage Value" does not impact the Company's portfolio. However, if enacted, the proposals to prescribe capitalisation rates (if below market rate) and/or capping the treatment of ground rent in the premium calculation at 0.1% of the property's value, could facilitate a one-time transfer of wealth from private and pension fund investors with legitimate interests in this sector, to leaseholders. The unintended consequences of the current drafting of these proposals may therefore be reduced consumer choice and the creation of a financial hurdle for leaseholders.

We therefore welcome the creation of a working group with the Royal Institute of Chartered Surveyors ("RICS") to consider the important detail relating to enfranchisement premium calculation. We support measures to improve the process for enfranchisement and lease extension, saving time and expense for all parties, but without negatively impacting the legitimate property interests of landlords.

The Government must work collaboratively with industry to shape the current legislative proposals and carefully consider how sufficient compensation will be paid to landlords in line with the peaceful enjoyment requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights.

We are aligned with other institutional investors who want to work collaboratively with the Government to protect consumers and ensure a fair and sustainable residential leasehold property sector. Legislative reform which disproportionally impacts one group of consumers over another will likely lead to legal challenge from stakeholders with legitimate interests in the sector and we are therefore seeking legal advice on what steps the Company may need to take to protect shareholders' interests.

Leasehold Reform (Ground Rent) Bill

The Bill, which is expected to be enacted in 2021, introduces legislation requiring that ground rents in new residential long leases have no financial value.

We and other stakeholders in the sector are concerned that variations to existing leases, including non-statutory lease extensions, may be captured in the proposed legislation. Under current legislation, non-statutory lease extensions retaining the current ground rent and review provisions, can provide leaseholders with security of tenure at minimal cost. The unintended consequence of the current drafting may therefore be reduced consumer choice and the creation of a financial hurdle for leaseholders to extend their leases.

Building safety reform

The draft Building Safety Bill ("BSB") implements many of the initial recommendations from the Grenfell Tower Inquiry and the Hackitt Review. It aims to introduce greater accountability and strengthen the regulatory system, making it clear where the responsibility for managing safety risks lies throughout the design, construction and occupation of in scope residential buildings.

As part of these reforms the Government is also seeking to amend Landlord and Tenant legislation to include a new Building Safety Charge to ensure more efficient and transparent recovery of costs incurred when introducing fire safety measures. This new charge will be separate from the service charge regime and will create a mechanism to recover the costs of compliance with the proposed legislation. The mechanism will however no longer extend to the costs of remedying historic defects.

In April 2021, the Fire Safety Act 2021 received royal assent following considerable debate in both Houses of Parliament. The act amends the Regulatory Reform (Fire Safety) Order 2005 ("FSO"), improving fire safety in multi-occupancy residential buildings, by bringing within the scope of the FSO flat entrance doors and the structure and exterior of buildings. An attempt to introduce a provision which would have prevented the costs from being passed on to leaseholders as a service charge was defeated.

In February 2021, the Housing Secretary provided £3.5 billion of additional funding (£5.0 billion in total) for the Building Safety Fund ("BSF") for residential buildings over 18 metres and confirmed that the Government will fully fund the cost of replacing unsafe cladding for all leaseholders in such buildings in England. This additional funding supplements the Social Sector Cladding Remediation Fund (£400m), the Private Sector Cladding Remediation Fund (£400 million) and the BSF for non-ACM cladding (£1 billion).

For buildings under 18 metres, a long-term, low interest, Government-backed loan scheme will be created with no leaseholder needing to pay more than £50 per month towards the removal of unsafe cladding. These announcements followed the establishment of a £30 million Waking Watch Relief Fund ("WWRF") to pay for the costs of installing alarm systems in buildings with unsafe cladding.

We support the Government's steps to address the industry wide cladding issues and specifically to limit the financial impact on leaseholders. The current scope and level of funding is however unlikely to be sufficient to resolve the systemic failure of building standards which we have seen in the UK.

Portfolio Activity

It has been a period of significant operational activity across the portfolio with specific focus on building safety, which has led to increased non-recurring external management costs. Since the start of the period, further incremental steps have been taken to enhance risk and governance processes and deliver best-in-class residential asset management. These included the following actions;

- External Wall Surveys ("EWS1") instructed for all qualifying managed estate ("MEST") buildings.
- Applications made to BSF on all qualifying MEST assets.
- Intrusive, Type 4 Fire risk assessments instructed across the MEST, with specific focus on buildings under 18 metres as we await details of the Government's proposed loan scheme.
- Provision of significantly enhanced information about external walls to underwriters as part of 2021 insurance renewal requirements for external walls.
- Digitisation of documentation as early adopters of the anticipated BSB.
- Regular engagement with residents' management company directors in the non-managed estate.
- Acceleration of 2021 and 2022 Fire Reinstatement Valuations-Requirements enhanced by the Fire Safety Act 2021 and dovetailed with wider insurance requirements.
- Updated Property Management Agreements to enhance governance and risk management and expand environmental, social and governance ("ESG") obligations.

The Company has made qualifying applications to both the BSF and the Government's WWRF to protect leaseholders from the financial implications of the building safety crisis. We continue to work collaboratively with leaseholders, Government and other stakeholders to remediate effected developments.

2021 insurance renewal

The 2021 insurance renewal was extremely challenging, mainly as a result of restricted underwriting capacity within the residential insurance market, resulting in significantly lower income to the Company. This is due to a broad range of factors, including the widely reported building safety issues and more frequent severe weather events across the UK.

To provide value for leaseholders and satisfy increasingly comprehensive insurance due diligence requirements, we are carrying out extensive work to provide detailed building information on specific external wall systems to obtain comprehensive policy coverage on competitive terms. This significant workload has required specialist external surveying support, which has contributed to the rising non-recurring external management costs referred to above.

The comprehensive information requirements of insurers follow the concept of the Golden Thread, set out in the proposed BSB. The information will assist our delivery of best-in-class residential asset management, whilst satisfying increasingly demanding due diligence requirements of ground rent investors.

Competition and Markets Authority

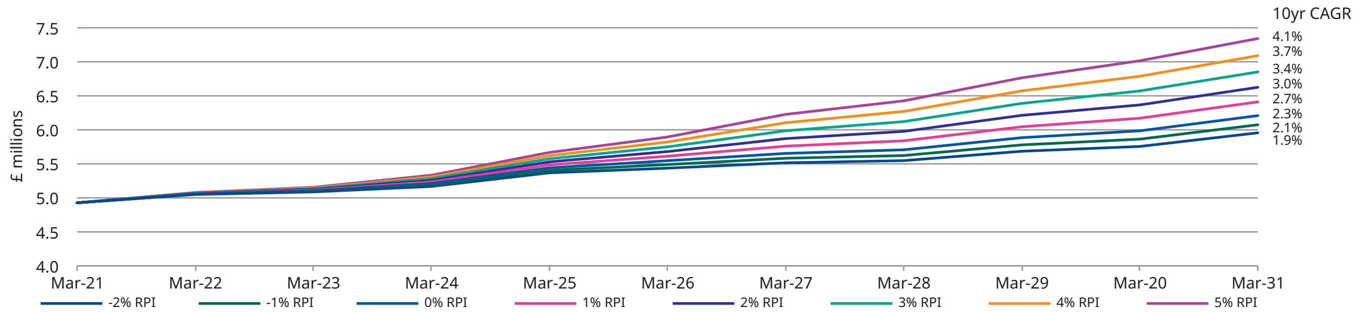
In September 2020 the Competition and Markets Authority ("CMA") announced its intention to bring enforcement action against four leading housing developers in relation to possible instances of mis-selling and potential unfairness of certain leasehold contract terms. The CMA also confirmed that, at that time and in line with their prioritisation principles, it was not taking enforcement action against the Company.

As part of its ongoing review of the leasehold sector, the CMA has continued to investigate certain firms, such as investment companies, which bought freeholds from these developers and have continued to use the same leasehold contract terms. As noted in the Chairman's Statement, in July 2021, the CMA announced that it had agreed an undertaking with a large institutional owner of ground rents that included removing onerous terms and compensation to leaseholders.

We have sought to address the concerns highlighted by the CMA through clear, publicly available information and policies relating to the fair treatment of consumers.

Investment Manager's Report continued

The chart below demonstrates the forecast ground rent income performance based on various levels of RPI. RPI inflation over the five years to and including March 2021 was 2.6% per annum.



Source: Schroders

We have updated the Company's processes so that it will not seek possession for rent arrears using the Housing Act 1988 under any circumstance. The 2017 Asset Management Plan was extended indefinitely by our participation in the Government's 2019 Public Pledge for Leaseholders, which continues to offer residential leaseholders the opportunity to convert their existing doubling rent review mechanism to the lesser of inflation, as measured by RPI, or doubling, while retaining their existing review cycle.

We will continue to monitor the CMA's ongoing investigation, including the enforcement action cases, and will review the Company's position in the light of any further developments.

Real estate portfolio

As at 31 March 2021 the portfolio comprised approximately 19,000 units across 400 assets valued at £123.6 million. The portfolio produces ground rent income of £4.93 million per annum, reflecting an average Years Purchase ("YP") of 25.1 or a gross income yield of 4.0%. The Company completed no acquisitions or disposals during the period.

The portfolio's weighted-average lease term as at 31 March 2021 was 342 years, with 93% of ground rent income subject to upwards only increases, primarily index-linked reviews. This is set out in the table below:

Review Mechanism	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2021 (£m)	Valuation at 31 March 2021 (%)
Index-linked	3,529	71.6	93.4	75.6
Doubling	746	15.1	17.3	14.0
Fixed	330	6.7	7.5	6.0
Flat (no review)	323	6.6	5.4	4.4
	4,928	**100.0**	**123.6**	**100.0**

The rent review profile is shown in the table below, with 46.8% of the ground rent income due for review over the next five years:

Years To Next Review	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2021 (£m)	Valuation at 31 March 2021 (%)
0-5	2,309	46.8	61.5	49.8
5-10	1,247	25.3	31.3	25.3
10-15	798	16.2	19.3	15.6
15-20	132	2.7	3.2	2.6
Over 20	119	2.4	2.6	2.1
Flat (no review)	323	6.6	5.7	4.6
	4,928	100.0	123.6	100.0

Assuming future RPI inflation of 2.6% per annum, ground rent income should increase approximately 16% over the next five years or an annualised figure of 3.0%; ahead of the RPI inflation assumption. As mentioned above, RPI is to be aligned with CPIH no earlier than February 2030.

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

The median annual ground rent charge is £110 for houses and £250 for apartments, excluding student accommodation assets.

Unit Type	Median ground rent £	Ground rent (£000)	Ground rent %	Valuation £m	Valuation %
Apartments	250	3,397	68.9	81.5	66.0
Houses	110	531	10.8	13.3	10.8
Residential subtotal	250	3,928	79.7	94.8	76.8
Student	401	826	16.8	24.5	19.8
Commercial	340	174	3.5	4.3	3.4
	250	**4,928**	**100.0**	**123.6**	**100.0**

The top 10 assets by value represent 28.7% of the total portfolio valuation as at 31 March 2021.

Property	Location	Ground Rent (£000)	Ground Rent %	Valuation £m	Valuation %
Lawrence Street	York	274	5.6	8.3	6.7
Masshouse Plaza	Birmingham	132	2.7	3.7	3.0
One Park West	Liverpool	150	3	3.5	2.8
The Gateway	Leeds	138	2.8	3.5	2.8
Wiltshire Leisure Village	Royal Wootton Bassett	113	2.3	3.4	2.8
Rathbone Market	London	122	2.5	3.2	2.6
First Street	Manchester	98	2	2.9	2.4
Ladywell Point	Salford	131	2.7	2.6	2.1
Richmond House	Southampton	86	1.7	2.5	2.0
Bezier Apartments	London	80	1.6	1.9	1.5
		1,324	26.9	35.5	28.7

The geographic spread of the portfolio as at 31 March 2021 is shown in the chart below:

	Ground Rent (£000)	Ground Rent %	Valuation £m	Valuation %
North East	1,432	29.1	36.2	29.3
North West	1,469	29.8	34.4	27.8
Midlands	579	11.8	15.5	12.5
London	599	12.2	14.6	11.8
South West	509	10.3	14.3	11.6
South East	270	5.5	6.8	5.5
Wales	70	1.4	1.8	1.5
	4,928	**100.0**	**123.6**	**100.0**

Sustainability and responsible investment

Sustainability and responsible investment are integral to our investment process. We believe that by understanding, managing and measuring the impact of Environmental, Social and Governance ("ESG") considerations, we will deliver enhanced long term returns for shareholders as well as deliver a positive impact to the environment and the communities where the Company is investing.

Schroders' sustainability programme is continually evolving, reflecting progression with industry sustainability targets, available technologies and the Company's specific regulatory environment. Our approach looks to consistently improve the sustainability credentials of the Company's portfolio. There will be 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 initial response to the Covid-19 pandemic, where our focus was on the safety and wellbeing of leaseholders and managing agents. More recently, the Company has made qualifying applications to both the BSF and the Government's WWRF to protect leaseholders from the financial implications of the building safety crisis.

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 we published our 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 our sustainability programme which includes targets to reduce energy consumption and greenhouse gas emissions.

The approach taken by the Company will be tailored to the nature of the asset class, recognising the limitations to improving assets due to the legislative landscape surrounding landlord – residential tenant relationships.

Finance

The Company holds a 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").

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 is approximately 2.42% per annum.

At 31 March 2021, £19.5 million was drawn on the Company's RCF 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 £68.0 million of uncharged assets as per the independent portfolio valuation and the Group level LTV based on gross assets is 15.8% against a restriction of 25%.

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	£12.5 million term loan £12.5 million RCF	£12.5m £7.0m	Jan 2025	2.42%	30.6	50	401.1	270	420.6	270

[1]Total 'all in' interest rate based on the LIBOR rate applicable to the RCF as at 31 March 2021, inclusive of non-utilisation fee.
[2]Loan balance divided by Santander secured portfolio bank valuation.
[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).

Outlook

We are operating in a complex regulatory environment, which has increased the Company's running costs and reduced non-ground rent income. These headwinds have been compounded by the uncertainty relating to the Government's ongoing leasehold reform.

We are highly focussed on resolving the Beetham Tower litigation and addressing building safety and leasehold reform risks by working with Government and other stakeholders to deliver fair and transparent reform that protects leaseholders in their homes and supports the legitimate value of the Company's portfolio.

Despite these operational and regulatory challenges, the Company has a strong balance sheet and a portfolio of uncapped, predominantly index-linked assets which is well placed to benefit from rising inflation expectations.

James Agar
Fund Manager
Schroder Real Estate Investment Management Limited
28 July 2021

Directors' Report

Principal risks and uncertainties

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

A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 12 to 14 of the Company's published Annual Report and Consolidated Financial Statements for the year ended 30 September 2020.

These risks and uncertainties have not materially changed during the six months ended 31 March 2021. However, the Board has reviewed the risks related to the Covid-19 pandemic and considers it to be a major event with an ongoing impact on the likelihood and severity of some of the Company's principal risks. Covid-19 has had a profound impact on many sectors of the economy, including large parts of the real estate sector, affecting both asset valuations and collection rates of payments due from tenants and leaseholders. The Board believes that the Company's business model is sufficiently distinguished from other parts of the real estate sector such that the risk of non-collection of rents is much lower and asset values are less likely to be as affected as other parts of the sector. However, these risks are being monitored closely.

The Board notes the Investment Manager's investment process is unaffected by the Covid-19 pandemic. The Investment Manager continues to focus on long-term fundamentals and detailed analysis of current and future investments. Covid-19 also affected the Company's service providers, who have implemented business continuity plans and are working almost entirely remotely. The Board continues to receive regular reporting on operations from the Company's major service providers and does not anticipate a reduction in the level of service.

Going concern

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

The Board has reviewed the impact on the risks as a result of Covid-19, and where appropriate, action taken by the Company's service providers in relation to those risks, and the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

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

Barry Gilbertson
Chairman
28 July 2021

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 March 2021

	Note	Unaudited 6 months to 31 March 2021 £	Restated* Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
Continuing operations				
Revenue	2	**2,853,484**	3,130,679	6,066,125
Operating expenses	3	**(1,303,519)**	(1,671,882)	(6,775,027)
Profit on sale of investment properties		**28,180**	879	315,270
Net revaluation loss on investment properties	5	**(516,220)**	(358,545)	(537,301)
Operating profit/(loss)		**1,061,925**	1,101,131	(930,933)
Analysed as				
Operating profit before exceptional items		**1,291,822**	1,700,149	3,520,937
Disposal/litigation costs		**(229,897)**	(599,018)	(1,551,870)
Provision for remedial works		**–**	–	(2,900,000)
Operating profit/(loss)		**1,061,925**	1,101,131	(930,933)
Finance income		**462**	9,239	16,469
Finance expenses	4	**(289,171)**	(353,144)	(671,739)
Net finance expense		**(288,709)**	(343,905)	(655,270)
Profit/(loss) before tax		**773,216**	757,226	(1,586,203)
Taxation		**–**	–	–
Profit/(loss) after tax and total comprehensive income/(loss)		**773,216**	757,226	(1,586,203)
Earnings/(losses) per share				
Basic	8	**0.80p**	0.78p	(1.64p)
Diluted	8	**0.80p**	0.78p	(1.64p)

The accompanying notes on pages 13 to 19 form an integral part of the unaudited condensed consolidated interim financial statements.

*See note 1 Exceptional items

Condensed Consolidated Interim Statement of Financial Position

As at 31 March 2021

	Note	**Unaudited 31 March 2021 £**	Unaudited 31 March 2020 £	Audited 30 September 2020 £
Assets				
Non current assets				
Investment properties	5	**123,628,000**	122,635,000	124,190,000
		123,628,000	122,635,000	124,190,000
Current assets				
Trade and other receivables		**2,532,323**	2,558,806	1,852,415
Interest rate derivative contracts	7	**27,380**	21,888	14,158
Cash and cash equivalents		**1,534,815**	1,480,366	2,435,758
		4,094,518	4,061,060	4,302,331
Total assets		**127,722,518**	126,696,060	128,492,331
Liabilities				
Non current liabilities				
Financial liabilities measured at amortised cost	6	**(19,051,283)**	(14,931,625)	(18,991,454)
Provision for liabilities		**(2,900,000)**	–	(2,900,000)
		(21,951,283)	(14,931,625)	(21,891,454)
Current liabilities				
Trade and other payables		**(4,360,635)**	(4,942,166)	(4,042,765)
Total liabilities		**(26,311,918)**	(19,873,791)	(25,934,219)
Net assets		**101,410,600**	106,822,269	102,558,112
Equity				
Share capital	10	**48,503,248**	48,503,248	48,503,248
Retained earnings		**52,134,136**	57,561,795	55,641,067
Profit/(loss) for the financial year		**773,216**	757,226	(1,586,203)
Total equity		**101,410,600**	106,822,269	102,558,112
Net asset value per ordinary share				
Basic	9	**104.5p**	110.1p	105.7p
Diluted	9	**104.3p**	109.7p	105.5p

The unaudited financial statements on pages 9 to 19 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Barry Gordon Gilbertson
Director
28 July 2021

William Edward John Holland
Director

Ground Rents Income Fund plc
Company registered number: 08041022

The accompanying notes on pages 13 to 19 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 March 2021

	Note	**Unaudited 6 months to 31 March 2021 £**	Unaudited 6 months to 31 March 2020 £	Audited Year ended 30 September 2020 £
Cash flows from operating activities				
Cash generated from operations	12	**1,192,205**	2,146,340	2,671,395
Interest paid on bank loan and bank charges		**(246,854)**	(311,451)	(536,077)
Net cash generated from operating activities		**945,351**	1,834,889	2,135,318
Cash flows from investing activities				
Interest received		**462**	9,215	16,445
Receipts from the sale of investment properties		**73,972**	13,856	347,203
Purchase of investment properties		**–**	(96,580)	(1,861,466)
Net cash generated from/(used in) investing activities		**74,434**	(73,509)	(1,497,818)
Cash flows from financing activities				
Bank loan receipts		**–**	–	4,000,000
Bank loan payments		**–**	(4,000,000)	(4,000,000)
Debt issue costs		**–**	(417,387)	(417,387)
Purchase of interest rate cap		**–**	(50,650)	(50,650)
Dividends paid to shareholders	11	**(1,920,728)**	(1,949,831)	(3,870,559)
Net cash used in financing activities		**(1,920,728)**	(6,417,868)	(4,338,596)
Net decrease in cash and cash equivalents		**(900,943)**	(4,656,488)	(3,701,096)
Opening cash and cash equivalents		**2,435,758**	6,136,854	6,136,854
Closing cash and cash equivalents		**1,534,815**	1,480,366	2,435,758

The accompanying notes on pages 13 to 19 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the period ended 31 March 2021

	Share capital £	Share premium account £	Retained earnings £	Total £
At 1 October 2019	**48,503,248**	**45,884,305**	**13,627,321**	**108,014,874**
Comprehensive income				
Profit for the period	–	–	757,226	757,226
Total comprehensive income	**–**	**–**	**757,226**	**757,226**
Transactions with owners				
Share premium account reduction		(45,884,305)	45,884,305	–
Dividends paid	–	–	(1,949,831)	(1,949,831)
At 31 March 2020 (unaudited)	**48,503,248**	**–**	**58,319,021**	**106,822,269**
Comprehensive loss				
Loss for the period	–	–	(2,343,429)	(2,343,429)
Total comprehensive loss	**–**	**–**	**(2,343,429)**	**(2,343,429)**
Transactions with owners				
Dividends paid	–	–	(1,920,728)	(1,920,728)
At 30 September 2020	**48,503,248**	**–**	**54,054,864**	**102,558,112**
Comprehensive income				
Profit for the period	–	–	773,216	773,216
Total comprehensive income	**–**	**–**	**773,216**	**773,216**
Transactions with owners				
Dividends paid	–	–	(1,920,728)	(1,920,728)
At 31 March 2021 (unaudited)	**48,503,248**	**–**	**52,907,352**	**101,410,600**

The accompanying notes on pages 13 to 19 form an integral part of the unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 March 2021

1. Significant accounting policies

Ground Rents Income Fund plc (the "Company") is a closed-ended investment company registered in England and Wales as a public company limited by shares. The Company's registered address is 1 London Wall Place, London, EC2Y 5AU. The condensed consolidated interim financial statements of the Company for the period ended 31 March 2021 comprise those of the Company and its subsidiaries (together referred to as the "Group"). These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2020 were approved by the Board of Directors on 2 March 2021 and were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting. They do not include all the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 September 2020.

The condensed consolidated interim financial statements have been prepared on the basis of the accounting policies set out in the Group's consolidated financial statements for the year ended 30 September 2020 and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. The Group's consolidated financial statements for the year ended 30 September 2020 refer to new Standards and Interpretations, none of which had a material impact on these condensed consolidated interim financial statements.

Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 31 March 2021 and have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments, which have been measured at fair value. The functional and presentational currency is sterling.

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

Going concern

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

The Board and Investment 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 period 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 2 and the Directors' Report on page 8.

The Group holds a loan facility with Santander. Half of the facility is a £12.5 million fixed rate loan attracting a total interest rate of 2.68% per annum. The Group also holds a £12.5 million revolving credit facility ("RCF") with Santander. As at the period end, the undrawn capacity was £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 condensed consolidated interim 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 July 2021 of approximately £1.7 million.
- The nature and timing of the Group's income and expenses;
- Obligations for remedial works within the Group; and
- That the Investment 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 condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2021

1. Significant accounting policies continued

Use of estimates and judgements

The preparation of interim 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 significant estimates are:

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

- **Provision for repair works**
  The provision for the liability for the works required to repair investment properties represents a shortfall between estimated 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 14 Provisions for liabilities.

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

Exceptional items

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

The Directors have retrospectively applied the policy to the period ended 31 March 2020 (as presented within the restated Condensed Consolidated Interim Statement of Comprehensive Income and note 3 Operating expenses) and reclassified the £0.6 million of period costs from operating expenses to exceptional items. This enables the reader to identify the costs incurred in all financial periods associated with the litigation in connection with and expected disposal of 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 Condensed Consolidated Interim 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 14 Provisions for liabilities, and the year-end financial report.

2. Segmental information

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

Schroders acts as adviser to the Board of Directors, who then make management decisions 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.

	Unaudited 6 months to 31 March 2021 £	Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
By activity:			
Ground rent income accrued in the period	**2,469,772**	2,426,124	4,855,924
Other income falling due within the period	**383,712**	704,555	1,210,201
	2,853,484	3,130,679	6,066,125

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.

3. Operating expenses

	Unaudited 6 months to 31 March 2021 £	Restated* Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
Directors' salaries	**70,977**	66,606	93,772
Auditors' remuneration	**105,981**	73,695	145,000
Management fees	**517,971**	542,306	1,112,582
Professional fees excluding exceptional items	**185,023**	220,875	600,398
Valuation fees	**28,772**	16,766	47,262
Insurance	**12,072**	11,269	49,517
Registrar fees	**21,877**	36,884	72,216
Sponsor fees	**28,960**	20,704	65,014
Listing fees	**21,884**	19,841	19,168
Public relations and printing costs	**6,487**	12,900	29,020
Other operating expenses	**73,618**	51,018	89,208
Operating expenses before exceptional items	**1,073,622**	1,072,864	2,323,157
Disposal/litigation costs	**229,897**	599,018	1,551,870
Provision for remedial works	**–**	–	2,900,000
Total operating expenses	**1,303,519**	1,671,882	6,775,027

*See note 1 Exceptional items. Litigation costs have been incurred in connection with the ongoing litigation within a wholly owned subsidiary NWGR. The Group continues to incur disposal costs associated with Beetham Tower, the investment property held by NWGR. The provision for remedial works is a provision under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", again in connection with NWGR.

4. Finance expenses

	Unaudited 6 months to 31 March 2021 £	Unaudited 6 months to 31 March 2020 £	Audited Year ended 30 September 2020 £
Loan interest	**232,255**	274,059	498,437
Amortisation of loan arrangement fees and bank charges	**70,138**	50,323	136,810
	302,393	324,382	635,247
Net change in fair value of financial instruments	**(13,222)**	28,762	36,492
	289,171	**353,144**	**671,739**

Total capitalised loan arrangement and associated professional fees of £0.45 million at the period end date are to be amortised over the remaining loan term to January 2025. See note 6 for further details.

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2021

5. Investment properties

Fair value	£
At 30 September 2019 (audited)	122,893,000
Additions	100,800
Disposals	(255)
Net loss recognised in statement of comprehensive income	(358,545)
At 31 March 2020 (unaudited)	122,635,000
Additions	1,760,666
Disposals	(26,910)
Net loss recognised in statement of comprehensive income	(178,756)
At 30 September 2020 (audited)	124,190,000
Disposals	(45,780)
Net loss recognised in statement of comprehensive income	(516,220)
At 31 March 2021 (unaudited)	123,628,000

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 31 March 2021 by Savills. The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable recent market transactions on an arm's length basis.

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

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

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

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between levels during the period.

6. Financial liabilities measured at amortised cost

	Unaudited 31 March 2021 £	Unaudited 31 March 2020 £	Audited 30 September 2020 £
Borrowings repayable over one year	**19,500,000**	15,500,000	19,500,000
Capitalised loan arrangement fees net of amortisation	**(448,717)**	(568,375)	(508,546)
	19,051,283	14,931,625	18,991,454

In January 2020, the 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.

6. Financial liabilities measured at amortised cost continued

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 31 March 2021, the loan facility was secured over assets held in Group companies, namely Admiral Ground Rents Limited, Clapham One Ground Rents Limited, GRIF040 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Masshouse Block HI Limited, Masshouse Residential Block HI Limited, OPW Ground Rents Limited, The Manchester Ground Rent Company Limited and Wiltshire Ground Rents Limited.

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

The combined 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 period. As at 31 March 2021 the actual LTV over secured assets was 30.6% with headroom of £24.6 million and interest cover was 401.1% with headroom of £0.6 million.

7. Derivative financial instruments

The Company has an interest rate cap in place purchased for £50,650 from Banco Santander SA in connection to the £12.5 million RCF drawn from Santander UK plc with a maturity date of 10 January 2025. The cap interest rate is 1.00% with a floating rate option being LIBOR three months. In line with IFRS 9 this derivative is reported in the financial statements at its fair value. As at 31 March 2021 the fair value of the interest cap was £27,380 reflecting a decline in the interest rate curve since the interest rate cap was purchased.

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

Basic earnings/(losses) per share

Earnings/(losses) used to calculate earnings/(losses) per share in the financial statements were:

	Unaudited 31 March 2021 £	Unaudited 31 March 2020 £	Audited 30 September 2020 £
Earnings/(losses) attributable to equity shareholders of the Company	**773,216**	757,226	(1,586,203)

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

Weighted average number of shares – basic	**97,006,497**	97,006,497	97,006,497
Basic earnings/(losses) per share	**0.80p**	0.78p	(1.64p)

Diluted earnings/(losses) per share

Diluted earnings/(losses) per share is the basic earnings/(losses) per share, adjusted for the effect of contingently issuable warrants in issue in the period, weighted for the relevant periods. There was no potential dilutive impact of warrants at the beginning nor at the end of the period.

Diluted earnings/(losses) per share	**0.80p**	0.78p	(1.64p)

9. 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.

	Unaudited 31 March 2021 £	Unaudited 31 March 2020 £	Audited 30 September 2020 £
Net assets	**101,410,600**	106,822,269	102,558,112
	Number	Number	Number
Number of ordinary shares in issue	**97,006,497**	97,006,497	97,006,497
Outstanding warrants in issue	**4,423,876**	4,423,876	4,423,876
Diluted number of shares in issue	**101,430,373**	101,430,373	101,430,373
NAV per ordinary share – basic	**104.5p**	110.1p	105.7p
NAV per ordinary share – diluted	**104.3p**	109.7p	105.5p

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2021

10. Share capital

		Unaudited 31 March 2021	Unaudited 31 March 2020	Audited 30 September 2020
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	Number	**97,006,497**	97,006,497	97,006,497
	Amount £	**48,503,248**	48,503,248	48,503,248

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

11. Dividends

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

	Unaudited 6 months to 31 March 2021 £	Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
Dividends declared by the Company during the period:			
Dividends paid	**1,920,728**	1,949,831	3,870,559
Analysis of dividends by type:			
Interim PID dividend of 1.02p per share	**–**	989,467	989,467
Interim PID dividend of 0.99p per share	**–**	960,364	960,364
Interim PID dividend of 0.99p per share	**–**	–	960,364
Interim PID dividend of 0.99p per share	**–**	–	960,364
Interim PID dividend of 0.99p per share	**960,364**	–	–
Interim PID dividend of 0.99p per share	**960,364**	–	–
	1,920,728	1,949,831	3,870,559

Since the period ended 31 March 2021, the Company announced an interim PID dividend of 0.99p per share (£960,364), with an ex-dividend date of 6 May 2021. It was paid on 28 May 2021 to shareholders on the register as at 7 May 2021.

12. Cash generated from operations

	Unaudited 6 months to 31 March 2021 £	Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
Reconciliation of profit/(loss) before tax to cash generated from operations			
Profit/(loss) before tax	**773,216**	757,226	(1,586,203)
Adjustments for:			
Net revaluation loss on investment properties	**516,220**	358,545	537,301
Profit on sale of investment properties	**(28,180)**	(879)	(315,270)
Net finance expenses	**288,709**	343,905	655,270
Exceptional items – provision for remedial works	**–**	–	2,900,000
Operating cash flows before movements in working capital	**1,549,965**	1,458,797	2,191,098
Movements in working capital:			
Increase in trade and other receivables	**(679,908)**	(1,448,405)	(742,013)
Increase in trade and other payables	**322,148**	2,135,948	1,222,310
Cash generated from operations	**1,192,205**	2,146,340	2,671,395

13. Related party transactions

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

Schroder Real Estate Investment Management Limited ("Schroders") is deemed to be a related party in that it acted as the Investment Manager.

Transactions between Schroders and the Company during the financial period were as follows:

	Unaudited 6 months to 31 March 2021 £	Unaudited 6 months to 31 March 2020 £	Audited year ended 30 September 2020 £
Investment management fee payable to Schroders	**517,971**	542,306	1,112,582

14. 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 of the financial statements for the year ended 30 September 2020). At the year end date, the Directors introduced a provision of £2.9 million that reflects the increase in the estimate of the cost of remedial works to be met by NWGR.

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

The provision of costs 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.

15. Other financial commitments and contingencies

The Company acts as guarantor for the payment of annual insurance premiums through credit facilities for a number of insured investment properties within its portfolio, where annual premiums are over £30,000 per annum. Premiums guaranteed total approximately £1.3 million at the period end date and the Company expects all premiums to be met by the leaseholders in line with lease terms.

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 were not reliably measurable at the period end.

The Alternative Investment Fund Managers Directive ("AIFMD") remuneration and leverage disclosures for Schroder Real Estate Investment Managment Limited ("SREIM") for the year to 31 December 2020

Remuneration disclosures
These disclosures should be read in conjunction with the Schroders plc Remuneration Report on pages 75 to 102 of the 2020 Annual Report & Accounts (available on the Group's website - https://www.schroders.com/en/investor-relations/results-and-reports/annual-report-and-accounts-2020/), which provides more information on the activities of our Remuneration Committee and our remuneration principles and policies.

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

The Remuneration Committee of Schroders plc has established a remuneration policy to ensure the requirements of the AIFM Directive are met for all AIF MRTs. The Remuneration Committee and the Board of Schroders plc review remuneration strategy at least annually. The directors of SREIM are responsible for the adoption of the remuneration policy, for reviewing its general principles at least annually, for overseeing its implementation and for ensuring compliance with relevant local legislation and regulation. During 2020 the Remuneration Policy was reviewed to ensure compliance with the UCITS/AIFMD remuneration requirements and no significant changes were made.

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

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

The remuneration data that follows reflects amounts paid in respect of performance during 2020.

- The total amount of remuneration paid by SREIM to its staff is nil as SREIM has no employees. Employees of SREIM or other Schroders Group entities who serve as Directors of SREIM receive no additional fees in respect of their role on the Board of SREIM.

- The following disclosures relate to AIF MRTs of SREIM. Those AIF MRTs were employed by and provided services to other Schroders group companies and clients. In the interests of transparency, the aggregate remuneration figures that follow reflect the full remuneration for each SREIM AIF MRT. The aggregate total remuneration paid to the 76 AIF MRTs of SREIM in respect of the financial year ended 31 December 2020 is £56.30 million, of which £36.33 million was paid to senior management, £14.75 million was paid to MRTs deemed to be taking risk on behalf of SREIM or the AIF funds that it manages and £5.22 million was paid to other AIF MRTs including control function MRTs.

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

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

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

The Investment Manager has set the expected maximum leverage percentages for the Group and calculated the actual leverages as at 31 December 2020 as shown below (the Group calculates and externally reports its leverage one quarter in arrears):

	Maximum limit set	Actual as at 31 December 2020
Gross leverage	175%	125%
Commitment leverage	175%	127%

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

Glossary

AGM means the Annual General Meeting of the Company.

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

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

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

Companies Act means the Companies Act 2006.

Company is Ground Rents Income Fund plc.

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

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

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

FCA is the UK Financial Conduct Authority.

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

Group is the Company and its subsidiaries.

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.

Corporate information

Website
http://groundrentsincomefund.com/

Directors
Barry Gordon Gilbertson
Paul Anthony Craig
William Edward John Holland

Investment 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