

Trading Update and Shareholder Consultation

22 December 2022

Ground Rents Income Fund plc

UNAUDITED PORTFOLIO VALUATION, REGULATORY REFORM UPDATE, AND SHAREHOLDER CONSULTATION

Ground Rents Income Fund plc (“GRIO” or the “Company”) provides an update on its portfolio valuation as at 30 September 2022, the continuing impact of regulatory reform, and proposals for a shareholder consultation relating to the forthcoming Continuation Vote. Key points for shareholders to note are:

- The unaudited independent valuation of the portfolio as at 30 September 2022 was £109.0 million, reflecting a decline of 0.9% over the six month period from 31 March 2022, and a decline of 8.7% over the 12 month period from 30 September 2021.
- As at 30 September 2022, 21% of the portfolio by value was subject to a Material Valuation Uncertainty Clause, with a negative valuation adjustment for building safety regulatory reform of £11.4 million. Further progress since the 30 September 2022 valuation date means that the relevant percentage of assets impacted is now approximately 17%. The valuation also includes a negative valuation adjustment for residential leasehold regulatory reform of £3.8 million.
- The recent introduction of the Building Safety Act 2022 (“BSA”), and challenges associated with verifying the valuation adjustment, will lead to a delay producing the audited results for the year ending 30 September 2022, and may lead to an audit report modification.
- The Board and Manager endorse the BSA’s aims of improving building standards, but it has, despite the Company not developing any of its assets, increased the challenges associated with resolving complex building safety issues. Notwithstanding, since Schroders’ appointment as Manager in mid-2019, and subsequent Board appointments, progress is being made in protecting both leaseholders’ interests and our shareholders’ investments.
- The Company intends to consult with shareholders in January 2023 on the forthcoming Continuation Vote.

* At the bottom of this statement is an Appendix containing a breakdown of the portfolio statistics used throughout for ease of reference.

Barry Gilbertson, the Company’s Chair, said:

“The Company continues to operate in an increasingly challenging regulatory environment, and we are working hard to protect both our leaseholders’ interests and our shareholders’ investments. Since Schroders’ appointment in mid-2019, and our subsequent new Board appointments from late 2019, progress has been made to reduce risk and manage historic, legacy issues. Given this uncertain outlook, and the forthcoming Continuation Vote, the Board and Schroders intend to consult with shareholders to determine the best strategy for managing these various complex issues and optimising value for shareholders.”

Portfolio valuation and unaudited NAV as at 30 September 2022

As at 30 September 2022 the Company’s independent valuer, Savills, valued the portfolio at £109.0 million. This reflects a decline of £1.0 million or -0.9% compared with the independent portfolio valuation of £110.0 million as at 31 March 2022, and a decline of £10.4 million or -8.7% compared with the independent portfolio valuation of £119.4 million as at 30 September 2021.

Consistent with the approach taken for the unaudited interim results for the six month period ending 31 March 2022, Savills, in conjunction with industry peers and the Royal Institution of Chartered Surveyors (the 'RICS'), have maintained the Material Valuation Uncertainty Clause ('MUC') relating to building safety issues, with the MUC technically not applying to the residential leasehold reform risk. An improved understanding of building remediation requirements across the portfolio meant the MUC was more narrowly applied with respect to the six-month period ending on 30 September 2022, with 30 of the Company's 390 assets subject to a building safety valuation adjustment, representing 21% of the portfolio by value (31 March 2022: 31% of portfolio value; 30 September 2021: 11% of portfolio value). Further progress since the valuation date means that the relevant percentage of assets impacted is now approximately 17%. The valuation was also impacted by general leasehold reform uncertainties which, together with the building safety issues, resulted in limited market transactional evidence.

Including adjustments made in prior periods, the aggregate valuation adjustments adopted by Savills for building safety and residential leasehold regulatory reform are £11.4 million and £3.8 million respectively as at 30 September 2022, or £15.2 million in total (31 March 2022: £18.6 million in total; 30 September 2021: £7.2 million in total). Due to the very recent introduction of the Building Safety Act ("BSA") in April 2022, outlined in more detail below, Savills' valuation makes assumptions where the full extent of the Company's liability for building safety works at the 30 relevant assets are currently unclear or unknown. This includes attributing a risk rating to each of the assets based on the relevant information provided by the Manager. This risk rating, adopted following the introduction of the BSA, is a means of quantifying the extent to which building safety remediation may be required, and whether those responsible for the defects, such as developers and contractors, remain in existence.

In order to provide shareholders with as much disclosure as possible, the Board and Manager are working with their key advisors and the Company's auditor, PricewaterhouseCoopers LLP ('PwC'), to more accurately verify the valuation adjustments used in the forthcoming audited year end accounts to 30 September 2022. To do so, we are adopting new Government guidance to verify the extent and cost of building safety remediation that is required across the portfolio, and the party, or parties, responsible for such costs. This is challenging due to the rapidly changing legislative environment and increased demand for specialist building consultants.

The Board and Manager have a clear strategy to provide this verification and it is possible that the verification exercise may lead Savills to change its valuation adjustment, which could increase or decrease the valuation as at 30 September 2022 to be used in the audited accounts at the same date. If sufficient verification cannot be provided, then the Company's accounts may be subject to an audit report modification. The Company has obtained approval from The International Stock Exchange ('TISE') to extend the filing date from 31 March 2022 to 30 June 2023, with the accounts being made available earlier if possible. The Company will also seek approval from Companies House, if required, in early 2023.

Based on the Savills portfolio value of £109.0 million, the Company is able to provide an estimated, pro-forma, unaudited NAV as at 30 September 2022 of £88.5 million, or 92.5 pence per share ('pps') (unaudited 31 March 2022: £89.5 million or 93.6 pps; audited 30 September 2021: £99.7 million or 103.1 pps). As noted, the audited NAV that the Company will release as soon as practicably possible in 2023, may be subject to an increase or decrease based on the aforementioned verification exercise.

Building safety reform

The Building Safety Act 2022 (the 'BSA') received Royal Assent on 28 April 2022 and secondary leaseholder protection legislation became law in July 2022. The Board and Manager endorse the BSA's aims of improving building standards, and helping to protect leaseholders living in their homes from the costs of remediating building safety risk issues. The Government has expressed a desire to put in place legal rights to support claims in the context of the "Polluter Pays" principle, by attempting to impose a primary liability with original developers and their building contractors (and associated entities) to remediate affected buildings. In January 2022 the British Standards Institute, in conjunction with Government, also introduced more proportionate building safety assessment guidelines, known as

'PAS9980'. This guidance, together with a state-backed professional indemnity insurance scheme for relevant assessors, is hoped to lead to more comprehensive fire risk assessments and more proportionate remedial measures, potentially reducing unnecessary costs.

Alongside the BSA, the Government asked original developers of affected residential buildings to sign a "Pledge", committing them to remediate, at their cost, the buildings they have developed over the past 30 years. The BSA, together with commitments under the Pledge, has led a number of large, listed developers to make significant provisions to pay for these works over time. The Company did not develop any of the assets in the portfolio, meaning it is not the 'Polluter'.

Despite the Polluter Pays principle,, the BSA also places responsibility for remedying unfunded, residual defects upon landlords such as the Company. This could impact the Company. Consequently, understanding the extent of this residual risk is the purpose of the verification exercise outlined above. In order to protect shareholders' interests, we and other institutional owners are also making representations to the Government in order to encourage greater fairness towards landlords who have not developed the assets, and a better understanding of the potential consequences of this aspect of the BSA.

Whilst the BSA has increased the complexity of the challenges facing the Company, we are already acting to protect both leaseholders' interests and our shareholders' investments, and the following progress is being made:

- Robust processes are in place to manage building safety issues, including regular and transparent communication with leaseholders who, in many cases, are understandably frustrated by issues that are impacting their ability to sell, or even re-mortgage, their home.
- Remedial work has commenced at seven out of the 30 properties referenced above (6.6% of current portfolio by value) which is being funded by either the original developers or the Government.
- Qualifying applications for Government funding have been made at a further eight properties (3.7% of current portfolio by value).
- Working closely with the Government's delivery partner for the Building Safety Fund ('BSF'), Homes England, and the Greater London Authority, we are one of the first institutional landlords to agree a main Grant Funding Agreement ('GFA'). Negotiations for a further three GFAs on the 'Managed Estate' (where the Company retains management responsibilities) are progressing in order to receive funding and complete works that will accelerate remediation and thereby enable leaseholders to sell or re-mortgage their homes.
- Across the 'Managed' and 'Non-managed Estate' (where a Residents Management Company ('RMC') is responsible for managing the building), we are progressing, or are aware of, approximately £56 million of developer or Government funded remediation projects at 17 properties. This includes four properties where works have already been completed (over and above the 30 referenced above), at no significant cost to the Company. In these cases the Company's cost exposure was limited to professional and other fees.
- New fire alarm systems installed at 10 properties, removing the requirement for expensive 'waking watches' whilst additional building safety works are addressed. In most cases, costs have initially been met by Government funding, and those organisations deemed ultimately responsible will be legally pursued where relevant.
- With respect to the 'Managed Estate', which includes eight out of the 30 properties referenced above, we are actively pursuing six developers under the new powers provided by the BSA, including waking watch costs and higher insurance premiums payable by leaseholders due to building safety defects.

- With respect to the 'Non-Managed Estate' which includes 22 out of the 30 properties referenced above we are assisting leaseholders (and their RMC where appropriate) wherever possible, such as providing consents for building safety assessments or leveraging contractual relationships where we hold collateral warranties from the original developer or contractor. Our approach recognises that many RMC's are supported by little to no shareholder equity, and that management and responsibilities transfer to the landlord when an RMC ceases to exist. There can also be practical challenges associated with obtaining information relating to the Non-Managed Estate, as the RMC has responsibility for dealing with its leaseholders, as well as providing consent for access to its demise.
- The Manager, in conjunction with our legal adviser, property manager and health & safety specialist, is putting in place the new landlord and leaseholder certification processes set out in the leaseholder protection regulations, as well as continually working towards establishing the 'Golden Thread' of building information for every asset.

More broadly, we have also made the following progress in relation to our objective to deliver best-in-class residential asset management:

- Continued progress implementing 'Project Pacific', an asset management programme to remove doubling residential ground rents from the portfolio at no cost to the leaseholder. This project was voluntarily initiated by the Company in 2017, well before Government reform. To date, 446 leaseholders have taken up the Project Pacific offer, which represents approximately 15% of qualifying leases and 2% of total leases across the portfolio. To accelerate this programme of activity, leaseholders with doubling ground rents that may be considered onerous were provided with an improved offer during the financial year. Acceptance should enable the leaseholder to secure improved mortgage terms and improve the liquidity of their home.
- Having resolved the highly complex legacy litigation at Beetham Tower in Manchester in August 2021, the Board and Manager are continuing to deal with legacy issues relating to historic transactions and portfolio activity carried out prior to the current Board and Manager's appointments with the Company. These legacy issues are granular, time consuming, and generally relate to disputes concerning legal title, disrepair and property management.
- Against the backdrop of the cost of living crisis, we are demonstrating the benefits of institutional ownership in the ground rents sector through activity such as bulk buying utilities and lower building insurance premiums.

Shareholder consultation

Continuation Vote

As noted in the interim results, the Company's Articles of Association (the 'Articles'), adopted prior to admission to the Official List of the Channel Islands Stock Exchange (now The International Stock Exchange, or 'TISE'), and to trading on the SETSqx platform of the London Stock Exchange in August 2012, 'Admission') contain provisions that provide shareholders with a vote on the future of the Company, commonly known as a 'Continuation Vote'. Such votes are relatively common in investment trusts as a means of enabling shareholders to realise their investment at, or close to, net asset value where, as in the Company's situation, the shares have traded at a persistent and material discount to net asset value per share.

Continuation Votes can be structured in different ways. In the Company's case, there is a requirement for the Board to convene a General Meeting between the tenth and the eleventh anniversary of Admission, meaning that the meeting must take place no later than 13 August 2023. The Articles provide that (i) the Board must table a proposal for shareholders to vote on a resolution for a voluntary wind-up (the 'Wind-up Resolution') and subsequent liquidation of the Company; and (ii) any single shareholder who votes for the Wind-up Resolution is deemed to hold sufficient voting rights so as to ensure that the resolution is passed. This means that the Wind-up Resolution can be passed with the vote of one

shareholder irrespective of the number of shares it holds in the Company. The effect is that, in the absence of any alternative proposal approved by shareholders, it is highly likely that the Wind-up Resolution will be passed. If the Wind-up Resolution is not passed, then the process is to be repeated every five years, meaning the next date on which a Wind-up Resolution can be proposed via the Continuation Vote process would be on the fifteenth anniversary of Admission (and every fifth anniversary thereafter).

The Articles allow for the Board to be released from its obligations to propose a Wind-up Resolution if a special resolution of the shareholders is passed prior to the eleventh anniversary of Admission. The Articles do not specify the terms of such a special resolution, and therefore the Board and its advisors have been giving consideration to proposals to be put to shareholders to facilitate the passing of a special resolution to release the Board from the requirement to propose the Wind-up Resolution by 13 August 2023. We will therefore consult with our larger shareholders on possible options in January 2023. The key points to be discussed in the consultation are set out below:

Market context and shareholder feedback to date

As outlined, the Company faces continuing headwinds relating to building safety and leasehold reform that are largely outside of our control, which have led to falling capital values and weak sentiment in the ground rent market sector more broadly. Whilst the Company has a clear strategy for managing the risks associated with these headwinds, until market conditions and liquidity improve, we believe that the portfolio may not be realisable on acceptable terms. Consequently, whilst progress is being made to improve liquidity of the underlying assets to satisfy more demanding buyer due diligence requirements, there is no certainty that the portfolio could be made 'ready for sale' to achieve optimum pricing over the short to medium term.

The Board and Manager also recognise that, based on recent shareholder feedback and the prevailing share price discount, a liquidity event more reflective of true net asset value would be attractive to shareholders. As part of assessing the options available, we are assuming that any extension to the term of the Company granted by the release of the need to propose a Wind-up Resolution by 23 August 2023 will be used to improve liquidity and crystallise the optimum return for all shareholders.

Consequences of the Wind-up Resolution

In the absence of an alternative, special resolution, a single shareholder voting in favour of the Wind-up Resolution will lead to the immediate winding up of the Company. If a Wind-up Resolution is passed, the Company would cease activities and all management powers would pass from the Board to an appointed Liquidator with immediate effect, which would constitute an event of default under the Company's loan facility with Santander. Given general market uncertainty, and based on the views from the Company's advisors, the impact would likely be a forced sale of the underlying portfolio (in whole or in parts) at depressed prices.

Alternative proposals to the Wind-up Resolution

Given the risks associated with the Wind-up Resolution, the Board and Manager intend to consult with shareholders on alternative options, summarised as:

- (1) Postponing the Company's obligation to hold a vote on the Wind-up Resolution by the current deadline of 13 August 2023 to 31 December 2024¹ ('Option 1'); or
- (2) Removing the Company's obligation to hold a vote on the Wind-up Resolution and replacing it with an alternative proposal and vote before 31 December 2024¹ to decide whether the life of the Company should continue (a 'Continuation Vote') which requires either (i) a simple majority of votes cast to pass; or (ii) a majority of not less than 75% of votes cast to pass. If this Continuation Vote is not passed, then the Board would be required to present alternative proposals to shareholders within an expedited timeframe ('Option 2').

¹ Note that this was changed from 2025 to 2024 for the purposes of the formal shareholder consultation

The points we would like shareholders to consider in relation to these options are:

Option 1

- The principle of one shareholder being able to trigger a liquidation remains; and
- The deadline for the vote on the Wind-up Resolution being extended to 31 December 2024¹. Given the Company's loan maturity in January 2025, and the work and cost associated with a possible short-term refinancing, the Board considers this date to be the most appropriate in the circumstance.

Option 2

- Removing the need for the vote on the Wind-up Resolution in its entirety and providing the Board instead with an obligation to hold a Continuation Vote by 31 December 2024¹. Such a vote would act as a milestone for the Board to provide shareholders with an update on progress in implementing the strategy determined following the consultation; and
- Question whether the vote be passed by a simple majority of not less than 50%, or a majority of not less than 75% (in both cases as a percentage of votes cast)

Given the impact of these options on the strategy of the Company, the Board also wishes to consult on amendments to the investment objective and policy, which is currently:

"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.

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."

Should shareholders wish to proceed with one of the options alternative to the Wind-up Resolution, the Board, with the full support of the Manager, proposes amendments to the investment policy to enable a realisation of assets in a controlled, orderly and timely manner, with the objective of achieving a balance between periodically returning cash to shareholders and optimising the realisation value of the Company's investments. The detail of this arrangement would be discussed as part of the consultation.

In addition to the legal and procedural points, there are additional, more commercial considerations on which we wish to consult with shareholders:

Current debt and potential refinancing

The Company's external loan with Santander matures in January 2025. Alongside the measures described, we will consult on proposals to extend this facility for a short period of time.

Board and external advisor fees

Since Schroders' appointment as Alternative Investment Fund Manager in mid 2019, the sustained headwinds facing the Company have led to the management team, and the Board, especially the Chair,

¹ Note that this was changed from 2025 to 2024 for the purposes of the formal shareholder consultation

to commit significantly more time and resource than could have been reasonably envisaged managing legacy issues. Resolving the complex legacy litigation at Beetham Tower in Manchester was very painful for our shareholders, but failure to deliver the outcome could have led to a significantly worse outcome for shareholders, leaseholders and other stakeholders. Despite the significant additional time and effort from both Schrodgers and the Board in bringing resolution to the Beetham Tower dispute, both Board and Manager felt the overall impact of the transaction on our shareholders meant it was inappropriate to charge additional fees for this work, despite being able to do so.

Looking forward, and as noted, the Board and management team continue to grapple with a range of legacy issues, as well as major new workstreams relating to building safety. This is critical work to support the strategy and improve portfolio liquidity. Whilst Schrodgers Alternative Investment Fund Management Agreement includes the ability to charge extra fees for out-of-scope work, the sheer range of projects means it is an inefficient mechanism. We would therefore like to consult with shareholders on the Manager's current fee arrangement with a view to simplifying its terms and aligning the Manager's interests with the interests of the Company's shareholders.

The Board is also reviewing fees of the Company's corporate broker and legal advisors for work associated with the matters set out.

Finally, given the increased workload and complexity of issues to be managed by the Board, particularly the Chair, and the potential for further work surrounding the Continuation Vote, we wish to consult shareholders on an increase in the Directors aggregate fee cap from the current level of £150,000 per annum. This also follows an increase in the size of the Board from three to four members in 2021, extending the range of experience and expertise of the Board, and creating a gender diversity ratio of 2:2.

Dividend policy

Although the Company benefits from growing underlying rental income, the headwinds relating to building safety and legacy issues across the portfolio are increasing frictional costs, and therefore diluting earnings. This scenario combined with the potential costs associated with the matters described and a rising interest rate environment, means the long term sustainability of the dividend may be impacted. This possible outcome is the final point for discussion with shareholders as part of the consultation.

Timing

Following release of this update, Singer Capital Markets ('SCM') will be contacting larger shareholders requesting initial consultation meetings to be held in January 2023, to be attended by SCM, by key members of the Schrodgers team and the Chair. Following this initial consultation, it is likely that the Board will refine the proposals and further consult prior to implementation.

Assuming this consultation process is concluded by the end of February 2023, and in the hope that a consensus can be found, the Company would aim to issue a shareholder circular before the end of March 2023, with a General Meeting taking place in May 2023, all in sufficient time before the deadline for presenting the winding-up resolution in August. Preparation of the Company's audited accounts to 30 September 2022 will run in parallel with this process.

This announcement has been determined to contain inside information. The publication of this announcement means that this inside information is now considered to be in the public domain.

Appendix

Table 1 – Savills Unaudited Portfolio Valuation Adjustments

GRIO 2022 Trading Update			
	30-Sep-22	31-Mar-22*	30-Sep-21
	(unaudited)	(unaudited)	(audited)
SAVILLS PORTFOLIO VALUATION:			
Value (£m):	£109.0	£110.0	£119.4
HY £m / Valuation change (%)	-£0.95	-0.9%	n/a
FY £m / Valuation change (%)	-£10.4	n/a	-8.7%
NAV (£m)	£88.5	£89.5	£99.7
Pence per Share ('pps')	92.5	93.6	103.1
SAVILLS VALUATION ADJUSTMENTS:			
Building Safety Act adjustment (£m)	£11.4	£13.9	£1.1
Leasehold Reform adjustment (£m)	£3.8	£4.6	£6.1
Total adjustment (£m):	£15.3	£18.6	£7.2
MATERIAL VALUATION UNCERTAINTY CLAUSE:			
No. of Assets	30	63*	17
Savills portfolio valuation where Building Safety Act remediation may be required (%)	21%	31%*	11%

* As at 31 March 2022 Savills adopted a valuation adjustment for the Building Safety Act, together with the MUC, for all mid-rise assets within the portfolio, irrespective of whether the need for building safety remediation had been identified.

Table 2 – Building Safety Act

Building Safety Act		
	Number of Assets	% of Portfolio Value (30-Sept-22)
Number of Assets Requiring Remediation:		
Managed Estate	8	8.9%
Non-Managed Estate	22	12.0%
Total	30	20.8%
Number of Assets Requiring Remediation, as of Dec-2022:		
Remedial Work Commenced:	28	17.0%
Managed Estate	1	0.5%
Non-Managed Estate	6	6.2%
Total	7	6.6%
In addition, Government funding applications ongoing:		
Managed Estate	3	1.0%
Non-Managed Estate	5	2.7%
Total	8	3.7%
In addition, pursuing responsible parties and/or awaiting mid-rise Government funding:		
Managed Estate	4	7.4%
Non-Managed Estate	11	3.1%
Total	15	10.5%
Grand Total	30	20.8%

	Number of Assets	% of Portfolio Value (30-Sept-22)
Post period end, net remediation not needed or works completed (including 1 additional property since identified)		
Managed Estate	-2	-3.0%
Non-Managed Estate*	0*	-0.8%
Total	-2	-3.8%
Grand Total (pro-forma, post 30-Sept-22)	28	17.0%
Building Safety Act remediation works completed prior to 30-Sept-21:	4	5%

* Net zero number of properties because one property where remediation since completed; and one additional property identified

Table 3 – Project Pacific

a.	b. Number of dwellings	c. % of dwellings	d. % of Portfolio Value (30 September 2022)
e. Accepted offer	f. 446	g. 2%	h. 2%
i. Qualifying Leases	j. 2,950	k. 15%	l. 11%
m. Total Portfolio Leases	n. 19,349	o. 100%	p. 100%

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