Schroders

EGM presentation

Ground Rents Income Fund plc ('GRIO' or the 'Company')

5 August 2024

Executive Summary

Implementing new Investment Policy against the backdrop of continued headwinds

- **Annual report and accounts to 30 September 2023**
  - Uncertainty relating to building safety remedial costs and leasehold reform negatively impacted net asset value and delayed accounts. Consistent with last year, accounts include disclaimer of opinion within the Modified Auditors' Report due to lack of evidence to determine cost and liability of cladding and non-cladding remediation. This, coupled with lack of transactional evidence, means assets are subject to Material Valuation Uncertainty Clause ('MUC').
  - Dividends withheld due to Modified Auditors' Report, with limited visibility as to when the Modified Auditors' Report will be removed, and therefore when dividends will be restarted.
- **Leasehold and building safety reform**
  - Previous Government consulted on restricting existing residential ground rents in November 2023, which led to a MUC being adopted across the market. New legislation and change of Government arguably represents a better outcome but remains key risk. Progress made remediating building safety issues, with impacted assets reducing from 30 to 24 over the financial year.
- **Continuation Vote**
  - In April 2023 Shareholders passed resolutions to (i) realise assets in a controlled, orderly and timely manner; and (ii) replace the wind-up resolution with a simple majority continuation vote to be held before 31 December 2024. There will be an EGM in late 2024 to hold the vote, where the Company will provide an update on progress delivering on the new Investment Policy.
  - It is likely the Board will ask shareholders to vote for continuation at the Continuation Resolution due to be held before 31 December 2024 to provide further time to achieve the new Investment Policy once greater legislative certainty is achieved

Source: Schroders, July 2024.

Summary of new strategy

Implementing new Investment Policy against the backdrop of continued headwinds

New strategy

- Strong support for change to the Continuation Vote in April 2023, together with the new Investment Policy focussing on optimising value for shareholders
- It is likely the Board will ask shareholders to vote for continuation at the Continuation Resolution due to be held before 31 December 2024 to provide further time to achieve the new Investment Policy once greater legislative certainty is achieved

Objectives

1. Improve portfolio liquidity and manage risk:
   i. Leasehold reform - better understand new Act and engagement with new Government to advocate for reform that fairly balances the interests of both leaseholders and landlords
   ii. Resolve complex building safety issues, to secure a recovery in values and protect leaseholders
   iii. Resolve legacy issues
   iv. Enhance the Company's operational platform
2. Progress asset disposals to optimise value for shareholders and reduce hedging / refinancing risk

Risks

- The new Act is of concern, but critical detail remains unclear pending secondary legislation, and the new UK Government is committed to reforming the sector further, reflected in valuer's continuing to adopt a MUC across the market
- Liabilities and/or illiquidity that may arise from building safety remediation projects, including third-party action/funding

Executing new Investment Policy

Focus on reducing legislative risk, improving portfolio liquidity, and disposals

- Completed disposal of freehold ground rent interests in Bristol and Exeter to a special purchaser, for a combined price of £3.45 million, representing a 4% premium to the latest valuation (30 September 2023: £3.3 million). Further disposals planned and in progress
- Refinance of loan facility completed, including extending the maturity from January 2025 to July 2026 and introducing new security
- Over the financial year the number of assets impacted by building safety related defects reduced from 30 to 24, representing 18% of the portfolio value as at 30 September 2023. As at today, the number of assets requiring remediation is unchanged
- Our efforts, and those of the wider ground rent market sector, combined with the change of Government, has arguably led to a better leasehold reform outcome for the Company than contemplated by the previous Government's Consultation. However, the Act remains of concern and greater clarity is needed on the new Government's priorities

Next steps

1. Better understand the Act, including Government engagement with peers, to support strategy
2. Consideration of interest rate hedging and refinancing strategy well ahead of mid-2026
3. Resolve complex building safety issues and improve portfolio liquidity
4. Implement disposals and wind up the Company in line with the new Investment Policy

Source: Schroders, July 2024

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Important Information

Ground Rents Income Fund Plc – Risk Factors:

The Company borrows for investment purposes. This will magnify any gains or losses made by the Company.

The Company has no maturity date. The Company may only be terminated by a continuation vote, a shareholders' voluntary liquidation or by a compulsory liquidation if the Company were unable to pay its debts. The Company owns a portfolio of assets with the income generated from the collection of ground rents.

Potential legislative reform may impact the Company's value and future income streams.

The Company invests in real estate which may be viewed as a higher risk and illiquid investment and may, therefore, be adversely affected by a decrease in market liquidity for the assets in which it invests

You may not be able to sell your product easily or you may sell at a price that significantly impacts on how much you get back. This product does not include any protection from future market performance so you could lose some or all of your investment.

The Company will invest solely in property located in the UK. This can carry more risk than investments spread over a number of countries. The performance of the Company would be adversely affected by a downturn in the property market in terms of capital value or a weakening of rental yields. The Company invests in real estate which may be viewed as a higher risk and illiquid investment and may, therefore, be adversely affected by a decrease in market liquidity for the assets in which it invests.

The Company has the ability to use gearing as part of its investment strategy. The use of gearing will increase the risk profile of the Company and the volatility of the value of Shares, and will amplify losses in the event of a decline in gross asset values. Gearing may create significant underperformance, particularly in times of a falling property market. Borrowing costs may, from time to time, exceed returns on property.

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